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IMPLEMENTATION STRATEGY FOR TEMAHOME IN THE TURKISH FURNITURE MARKET

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Executive Summary

Over the last decade we observed huge discrepancies in the Worldwide evolution of furniture consumption. Particularly, its boom in some emergent economies was accompanied by marginal growth rates in the most developed nations.

This phenomenon creates a challenge for a company whose sales have been directed to high income countries. In that sense, more than just a tactical maneuver, a successful implementation in Turkey will constitute a crucial strategic landmark for Temahome.

Due to the fact that Turkey's characteristics are substantially different from what Temahome is used to, a correct approach will require a deep understanding not only of the firm's internal resources, capabilities and experience, but also of the specific characteristics of the Turkish furniture industry. This external analysis comprised intensive data collection, interviews with key players in this industry and a 1-week journey to Turkey.

The balance between Temahome's internal characteristics and the external features of the Turkish market led to the conclusion that exportation through sales agents represents the most suitable mode of entry. Firstly, they are more willing to generate sales instead of just responding to them, which is particularly important in a country where Temahome's products are still widely unknown. Secondly, sales agents allows the exporting company to maintain a higher control level over its marketing mix in the importing country.

However, due to the risks inherent to this project, it will be crucial to guarantee some flexibility to future adaptations. Thus, establishing a continuous monitoring scheme constitutes a necessary condition for Temahome's long-term profitability in Turkey.

Key Words

- Internal Scanning of Enterprise's Resources and Capabilities
- International Implementation Plan
- Agency Contracts
- Risk Controlling Strategies

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Brief description of the enterprise

Temahome is a Portuguese SME dedicated to the production of contemporary furniture. The company was born in 1981, resulting from the association between a Portuguese and a Norwegian firm. From this moment on, Temahome had been producing private label furniture to some of the largest furniture retailer chains, especially IKEA.

By 2006, Tema, the predecessor of the actual Temahome, had an annual turnover of €15 Mio. However, sales were starting to stagnate and the future prospects were worrying. First, Tema's business was too concentrated in a few volume-driven clients to whom price was the most important variable of the marketing mix. Secondly, the entrance of China in the WTO and the rising competition coming from the Eastern Europe imposed a downward pressure in the price of the furniture sold in the West.

As a result, in one hand, Tema had to maintain competitive prices in order to retain its larger clients, whose sales represented the bulk of Tema's business. On the other hand, with the opening of the furniture trade market, prices were being driven to levels where Tema was not profitable anymore, due to its heavier cost structure and labor costs, when compared with its Eastern competitors.

In 2006, following a management buy-in where the shareholder structure was reshaped (Appendix 1), a new management team was hired and a totally new strategy was conceived, which led to the creation of the Temahome concept. The perception that competing at a cost level with these new competitors was deemed to fail, made it clear that the company had to differentiate and bet in some factors other than price, namely quality, design and innovation. Since then, through its internal design team and with the external collaboration of some top designers, Temahome has started to conceive its own pieces of furniture. In that sense, today Temahome does not only respond to the market needs and trends; Temahome helps creating them. At the same time, the firm has broadened its product offering, by starting to incorporate home decoration accessories such as rugs, lightning and sofas.

Of course, moving from a manufacturer of private label wood furniture into a designer and manufacturer of home decoration pieces directed to the medium/high end of the market takes some time and requires deep transformations in the imbibed processes and culture of the firm. Besides that, due to this new strategy, Temahome had to shift from the large-scale volume oriented retailers into smaller scale medium/high-end specialized retailers. Consequently, during this period of transition, Temahome's total sales have been significantly affected (Appendix 2), since the incremental sales that are generated

with a new client are significantly lower than the effect caused by the loss of older (and larger) clients that stop doing business with Temahome mainly due to price concerns.

One of the major challenges that a design-oriented company such as *Temahome* faces is the threat of imitation. While designing a new product requires recruiting creative minds and R&D expenditures; imitating is cheap. Since the protective power of product patents is especially limited when it comes to furniture, Temahome has no other option than to innovate continuously and to strengthen its brand name. As a result, in one hand, the product life cycle and the time interval between the creation of new pieces have been reduced (creation of annual catalogs). On the other hand, in an attempt to increase its brand visibility next to the final consumer, Temahome has been opening several *shop in shops*¹ throughout Central Europe and US, and has just recently opened in Lisbon its first owned store.

In 2008, with a sales volume close to €12 Mio, exports represented 90% of *Temahome* total sales. Switzerland, Germany, Denmark, US, Portugal and Spain were the most representative markets ([Appendix 3](#)).

This is a crucial time for Temahome. In 2009, Temahome, as well as the whole furniture industry in the developed countries, has been significantly affected by the current economic context. Nevertheless, this Portuguese enterprise is already looking ahead and has been investing a lot in its upcoming 2010 Collection, which, for the first time, will have the contribution of some acknowledged international designers, whose worldwide reputation guarantees that *Temahome* products will be brought to a whole new level.

Business Mission and Strategic Objectives

Following the strategic reorientation of *Temahome*, in 2006, a new and ambitious **Mission** was established: “*To be a globally recognized contemporary furniture and lifestyle brand*”. Three important conclusions can be derived from this statement:

- I. "Globally recognized": Reinforces its global ambition and the importance given to the international markets.
- II. "Contemporary furniture and lifestyle": Desire to evolve, continuously, from a wood-furniture firm into a complete home decoration enterprise (broader concept).
- III. "Recognized (...) brand": Ambition to strengthen the brand awareness and to associate it with favorable feelings.

¹ Shop in Shops are galleries within the shops, where the products of a certain brand are grouped and the logo of that enterprise is presented to the final consumer

A key success factor in order to achieve this goal is the relationships that Temahome will establish with its stakeholders (i.e. employees, clients, suppliers, investors and society as a whole). In that sense, *Temahome* is imbued with a **Vision** that reinforces the importance given to each of its surrounding agents ([Appendix 4](#)).

However, due to their abstract and broad nature, the applicability of the Mission statement in the enterprises daily operations is sometimes minimal. Therefore, to ensure the applicability of these general guidelines companies should establish articulated schemes that ensure their operationalization. In this particular subject, Temahome is undoubtedly a great example. From the broadest concept to the employees' individual objectives there is a clear link that ensures that the message is spread everytime and everywhere among everyone, instead of only among top management ([Appendix 5](#)).

In 2009, *Temahome* has created a 3-year plan (2009-2011) that established the strategic objectives to each department, whose accomplishment is crucial to the firm's success and sustainability in the medium/long run. While relevant developments have been made in what concerns Marketing, Information Systems and Human Resources; significant advances will be required in the Sales and Production, Quality Management and Financials, if *Temahome* wants to meet its 2011 objectives ([Appendix 6](#)).

Sales and Production Reach a sales volume of €18Mio per year and guarantee the required internal and external capacity to support that annual turnover	Marketing Develop and Implement the positioning of medium-high end, strengthen the brand, namely through the galleries Temahome Prepare the opening of a "flagship store" and develop the concept of franchising	Human Resources Provide the HR Department with a structure that aligns the firm strategic orientation with the individual needs, by managing expectations and developing competences.
Quality Management Implement a process of continuous quality development, allowing the reduction in the number of client reclamations to a maximum level of 1 per day.	Information Systems Develop and implement sustainable systems that support the decision making and that contribute to the flexibility and rigor of the information flows, to the responsiveness off the processes and to the reduction of the operations length	Financials <ul style="list-style-type: none"> - Attain a annual net profit of €1,5Mio - Attract new funds in order to finance further international expansion

Figure 1 - 2009-2011 Strategic Objectives

These major orientation lines are decomposed in the annual Operational Objectives which are monitored every month and used as the foundations to the employee individual objectives, whose achievement is linked with their monthly remuneration.

Methodology

A viable implementation plan should take into consideration both the characteristics of the importing market (*external scanning*) as well as the resources, capabilities and past experiences that the exporting firm possesses (*internal scanning*).

The internal scanning was elaborated based on weekly interviews conducted in Lisbon, initially with Eng. Stephan Morais (Temahome CEO) and then with Dra. Alice Teles (Temahome Marketing & Sales Director). On the 13th of October of 2009, we had the opportunity to spend a day in Temahome's factory located in Tomar, where we observed the productive process and met with Dr. Luís Vicente (Production Director).

Regarding the external scanning, several databases were used to gather country specific information, such as the one from the World Bank, United Nations, International Monetary Fund (IMF) and Central Intelligence Agency (CIA). To analyze the currency risk, we collected the daily exchange rates of each currency in relation to the Euro in the database of the Dutch central bank (DNB). Information concerning furniture consumption worldwide was obtained through the World Furniture Outlook 2009/2010, which is a annual publication issued by the Centre for Industrial Studies (Csil) located in Milan. In order to obtain information about the Turkish furniture industry, a 6-days journey to Istanbul was undertaken, where we had two interviews: one with the Secretary of Foreign Trades of MOBDER², Dr. A. Kadri Çoklar, and the other with the delegate of AICEP in Istanbul, Dr. João Mota Pinto. At the same time, we have maintained regular online contact with the Commercial Counselor of the Portuguese Embassy in Ankara, Dra. Celeste Mota. Finally, some books regarding Turkish economy and demography were collected next to the Turkish Embassy in Lisbon.

Additionally, in order to receive some specialized feedback about the exportation experience we participated in the one-day event organized by AICEP and Associação Industrial Portuguesa (AIP) in Lisbon called Portugal Exportador 2009.

Overview of the World Furniture Industry

Consumption

Stagnant during the turn of the century, the consumption of furniture boomed in 2003. In 2008, \$370 billion were consumed in furniture worldwide, which represents a growth of 75% in relation to its value in 2002 (Figure 2). Nevertheless, due to the heterogeneous nature of the World, it would be misleading to overestimate representativeness of these worldwide figures.

In fact, it has been proven that wealthier countries tend to exhibit higher levels of consumption of furniture per capita (Appendix 7). In that sense, using Gross National

² MOBDER, together with MOSDER, is the most important furniture association in Turkey

Income (GNI) as the criteria of segmentation, two different groups of countries were created: High Income Countries (HIC) and Low and Medium Income Countries (LMIC). The exact methodology used in this segmentation is further described in [Appendix 8](#).

It is interesting to notice that the evolution in the consumption of furniture has not been homogeneous throughout the World. In fact, from 1999 to 2008, while in the HIC group the average annual growth was 4,0%; the LMIC registered an annual growth rate of 15,9%. Since 2004, the outperformance of the LMIC in relation to the HIC has become even clearer, with the gap between their growth rates widening to 15-20%.

There is no doubt that the Chinese performance played a major role in the LMIC consumption growth. Nevertheless, even if we exclude China, the growth of furniture consumption in the last years is still considerably larger in the LMIC than in the HIC group.

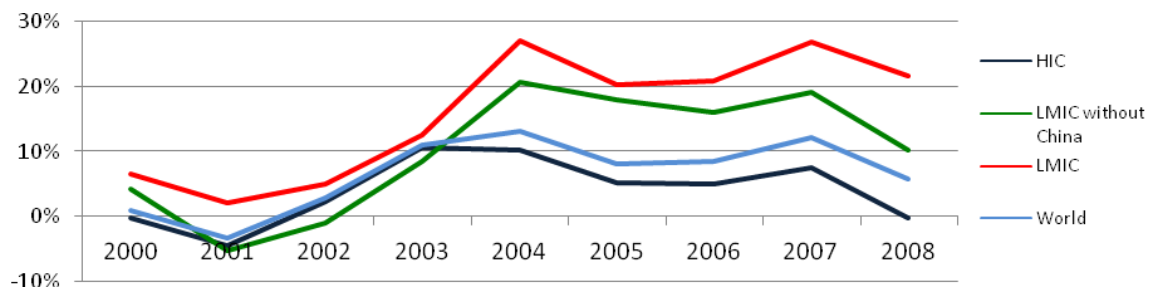


Figure 2 - Furniture consumption growth rate (in dollar terms)

As a result of this trend, the weight of the HIC in the World consumption of furniture has decreased from 85% in 1999 to 68% in 2008. On the other side, LMIC weight has grown to 32% especially due to the Chinese consumption boost ([Appendix 9](#)).

Nevertheless, and despite these figures, the World consumption of furniture is still largely dominated by the richer countries, with United States (21%), Germany (7%), United Kingdom (5%), Italy (5%), France (4%) and Japan (4%) as major consumers. Among the LMIC, only China (18%) and India (3%) surpass the €10 billion threshold, although the rapid growth in countries like Brazil, Poland and Russia has already guaranteed them a place in the 2008 *Top 20* of World largest furniture consumers.

The fact that the HIC group represents nearly two thirds of the World consumption becomes particularly interesting if we take into consideration that, by 2008, these countries represented only 21% of the whole population. Therefore, in the future it is predictable that LMIC economies will continue to increase their weight in the World consumption of furniture.

Production

Interestingly, the production of furniture has been following the same trend towards emergent economies that we observed in the World consumption figures. In fact, the emergence of the LMIC as furniture producers is prior to their boost in furniture consumption, which as we have seen had happened in 2004.

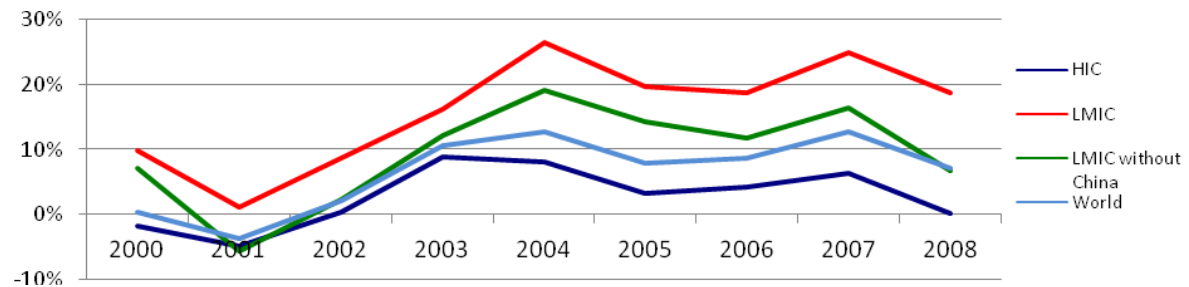


Figure 3 - Furniture production growth rate (in dollar terms)

As a result, benefiting from their low production costs and from the opening of their economies, the LMIC's share in the World production has doubled from 20% in 1999 to 42% in 2008 ([Appendix 10](#)). Once more, China was the main responsible for this boost, although countries like India, Poland, Brazil, Indonesia, Vietnam and Malaysia have also established themselves among the list of most important furniture producers.

Despite this rapid shift towards, by 2008, the top 5 furniture producers is still constituted by four HIC and only one LMIC. All together, China (25%), US (15%), Italy (8%), Germany(7%) and Japan (3%) represent 58% of the World's production.

Report on competitive assessment of the Enterprise - Internal Scanning

The underlying premise beyond Michael Porter's model is that a firm has to achieve a competitive advantage in order to sustain profits that exceed the industry average. In order to do so, it is fundamental to understand what are the activities that create more value to the enterprise or ,in other words, what are Temahome's core competences.

Inspired in the Porter's Value Chain approach, we grouped Temahome's business in six primary activities: Design, Procurement, Operations, Outbound Logistics, Service and Marketing & Sales. With the final purpose of understanding how Temahome's profit margin is generated, we will now analyze the balance between the cost and value drivers associated with each of these activities.

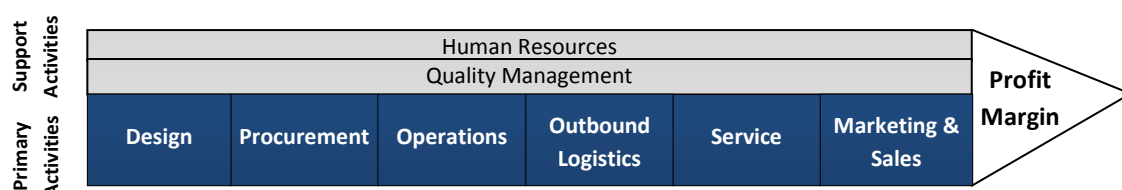


Figure 4 - Temahome Value Chain

A clearer understanding on how these activities are linked to each other can be obtained through the observation of [Appendix 25](#).

Design

Today, more than ever before, design is a fundamental variable to Temahome's business. In that sense, the resources devoted to this activity have been significantly enlarged over the last three years. Today, Temahome has its own internal design team composed by young and talented Portuguese industrial designers with academic knowledge in this field. Additionally, top designers with international reputation collaborate with the enterprise in the conception of products directed to the upper segment of the market.

At the same time, the conception of new products obeys to a rigorous Integrated Quality Management System which ensures that the product is not only designful, but also marketable and meets every quality standard ([Appendix 11](#)). Since furniture patents are not particularly effective³, the only way for Temahome to protect against the threat of imitation is to either invest in its brand (topic that will be further addressed) or to innovate continuously, by shortening the product life cycle and increasing the number of new pieces created every year. In that sense, the design activity became a continuous process instead of a cyclical one, although the presentation of some products might be often postponed in order to coincide with Temahome's presence in international fairs.

Once they are created, products are then allocated to the 3 different lines in Temahome's portfolio: *Essence* (medium end of the market), *Style* (medium/high end) and *Lisbon Collection* (upper-end). Typically, the products directed to the lines *Essence* and *Style* are designed by the internal design team, while the external designers are devoted to the *Lisbon Collection* catalogue since their name is already recognized by the market and opinion leaders as a synonym of quality and high end furniture. Some product images regarding these lines can be consulted in [Appendix 12](#).

Cost Drivers: Internal designers are actually employed, so they are paid through wages. External designers receive royalties over the sales of the products that they design.

Value Drivers: Design increases the product differentiation, which ultimately reduces the price competition and detaches Temahome from the downward pressure in prices that is emerging due to the rising Eastern competitors. Furthermore, the association with top designers, such as Karim Rashid, increases Temahome's brand visibility. In the World of arts and design, the name of the artist underneath the product is often more

³ Slight changes in the product features (such as the materials used or the size) are usually enough to avoid any type of penalty when imitating an already existing product.

valuable than the enterprise's name itself. Taking these aspects into consideration, we elect Design as a clear **core competence** of Temahome and, therefore, a major source of value creation in its value chain. In fact, as a consequence of this exceptional design competences, in 2009, Temahome won two important national design awards (Prémio Sena da Silva, Prémio Mobis) and also the internationally prestigious Design Management Europe Award 2009, in Eindhoven for the category of medium-sized firms.

Procurement

Headquartered in Lisbon, Temahome's 16.500 m² production facility is located in Tomar, 130km away from the Portuguese capital. It is in this factory where most of Temahome's production takes place (internal production). However, with the recent broadening of the product portfolio, the Tomar Factory is not able to produce efficiently some of the new creations. As a result, there is a clear tendency towards the increase in the weight of outsourced production (external production), which represents today 10% of the total production. Obviously the inbound logistics for each of these channels differs significantly.

Internal Production is fed by several national and international suppliers of raw materials. Agglomerate of wood, MDF, platex, honey comb and wood veneer are the main supplies. Although some of them have some degree of differentiation, they can be generally classified as commodities.

External Production has been outsourced to Spain, China, Italy and to some Portuguese manufacturers. A few bad experiences that Temahome faced during the last two years with Chinese manufacturers has proven that choosing the wrong partners can become extremely costly. In fact, while a percentage of the outsourced production is paid in advance, there is no effective guarantee that the production will meet the exact specificities of Temahome's prototype. In order to reduce the risks associated with these partnerships, today Temahome allocates a multi-disciplinary team to the procurement activity, that visits the facilities of the potential suppliers and ensures that they are not only cost effective, but also meet all the quality and design requirements.

Cost Drivers: In 2008, the costs associated with this activity represented 33% of the total revenues. These costs include the costs of the materials consumed (raw materials), costs of materials sold (i.e. outsourced production) and the inbound transportation costs (transportation from the supplier to the Tomar factory).

Value Drivers: In its initial stage, a rigorous procurement process requires more money and essentially more time in order to take the decision on which supplier to choose. On the other hand, it increases the possibilities of a long lasting relationship and reduces the risks of future problems regarding products' quality, which ultimately are translated into higher post-sale costs (i.e. technical assistance) and lower customer satisfaction. This subject is particularly important for the suppliers of outsourced production. Nevertheless, regarding the supplies of raw materials that fed Tomar's internal production, we should remember that some of them are commodities which often are not visible in the final product (materials consumed during production) and therefore represent an opportunity for exploiting cost advantages.

Operations

In 2006, Temahome's strategic shift changed the portfolio of clients, reduced the sales volume per order and broadened the product coverage. On the other side, the factory has remained barely the same. As a result, its equipment is still directed towards mass production of wood-furniture, instead of low volume (and high margin) home furniture and accessories. Consequently, in the future, we expect a further reduction in the weight of the Tomar factory in Temahome's sales (today it represents 90%), which eventually will enlarge its already significant spare capacity.

Cost Drivers: Today, the Tomar factory employs 115 workers, which represents 70% of Temahome's total personnel. Alone, their wages account for 20% of the sales revenues. Adding up the factory's administrative and maintenance costs, we reach a total cost of nearly 26% of Temahome's annual turnover.

Value Drivers: With Temahome's new strategy, it is clear that the role of the factory in the value chain has changed significantly. Today, new factories with more advanced equipment are able to produce more efficiently than what is done in Tomar. As a result, while it is clear that the weight of outsourced production will continue to increase, the factory represents a too heavy burden to be let with overwhelming spare capacity. Thus, it is absolutely crucial for Temahome to find a new role for its factory. Particularly, either it makes huge investments in its facility in order to adapt it to the new trends (which does not seem possible due to the actual financial constraints of the enterprise) or it sells/rents its exceeding capacity to the production of high volume and low margin wood-furniture.

Outbound Logistics

Temahome has regular sales to over 20 different countries in the World. As a result, it would be virtually impossible for a company with only 165 employees to guarantee, through its internal resources, the whole logistic process from Tomar to its hundreds of furniture retailers worldwide. As a result, this transportation is assured by 4 logistic operators that are sub-contracted by Temahome. Typically, to the western and central European countries, transportation is done through trucks that leave Tomar every friday. On the other hand, distant markets (such as US and Japan) are supplied by boat.

The fact that Temahome is shifting to lower scale specialized retailers creates a huge challenge to the firm's outbound logistics. While IKEA would always undertake large and infrequent orders; Temahome's new clients have limited storage capacity and therefore prefer to make smaller and frequent orders. Consequently, the volume per order has been decreasing sharply, which ultimately results in higher transportation costs per unit⁴.

In that sense, in the future, it may become crucial for Temahome to create storage capacity closer to the furniture retailers. Nevertheless, due to the fixed costs associated with this alternative, it will only make sense to do so, whenever the market is big enough in order dilute the storage cost per unit. As an example, renting some warehousing space in Hamburg or Rotterdam (both of them equipped with excellent logistic facilities) would serve simultaneously Germany, Denmark and the Benelux, which are markets that represent 32% of Temahome's total sales.

A second possible option would have to do with the chosen exportation approach. So far, apart from a few exceptions, Temahome has been exporting through sales agents, which are local intermediates that are responsible for the collection of new orders and post sale technical assistance. In exchange, they receive a commission over the sales volume ranging from 6% to 8%. Nevertheless, unlike distributors, agents do not provide any storage capacity in the importing country. In that sense, the replacement, in some specific markets, of the sales agents for distributors may help to control the outbound logistic costs in the future. This topic will be further addressed later when discussing the different modes of entry options.

Cost Drivers: Together, transportation costs (9,7%), agent commissions (7%) and other outbound logistic costs (2,6%) represent a total of 19,3% of Temahome's annual sales.

⁴ It should be noticed the existence of significant scale economies regarding the outbound logistics (i.e. A fully loaded container costs less than two times a half loaded container).

Value Drivers: The importance of providing a timely delivery will continue to increase due to the shift towards low scale retailers that demand smaller but more frequent replenishments. It will be important to monitor the lead time to each market in order to assure that customer satisfaction is not damaged.

Service

We can divide this activity in two different aspects: service offered to the retailers (B2B); service offered to the end consumer (B2C). In the first case, timely deliverance of the products, post-sale technical assistance and point of sale promotional materials constitute the main variables. Nevertheless, as the representant of Temahome in foreign markets, it is usually sales agent responsibility to perform this function. In the second case, the contact between Temahome and the final customer is minimal, since the service burden becomes a responsibility of the retailer. The exceptions are Temahome's *online shops* (in US and Portugal) and its recently opened owned shop in Lisbon.

Cost Drivers: This activity demands few resources from the standpoint of Temahome, since it shares the service burden with the sales agent and with the furniture retailer.

Value Drivers: Due to their smaller size, the relationship with the retailers will tend to become more tangible. By guaranteeing a good service level, Temahome may conquer a level of loyalty that it would never get with a larger retailer (which are usually more price oriented). Additionally, with the creation of its first owned store, Temahome has now the opportunity to develop more customized services, such as decoration advising and integrated solutions for the whole home.

Marketing & Sales

Due to its transversal nature, it is impossible to define a precise position for the Marketing & Sales activity in Temahome's value chain. Within this activity, we should distinguish two different, but equally important, roles. In one hand, it aims to promote Temahome's brand and product portfolio among furniture retailers, end consumers and opinion leaders (creation of demand and brand awareness). The participation in major furniture international fairs (Cologne, Las Vegas and Milan), the elaboration and promotion of annual catalogs, the creation of shop in shops and the usage of a Marketing 2.0 approach are the most important instruments that Temahome uses with that purpose. On the other hand, the Marketing & Sales activity has also the goal to identify and forecast emerging trends, which then constitutes valuable feedback to the

elaboration of the product briefing (first step of the Product Conception Process - [Appendix 11](#)).

Cost Drivers: Since the strategic reorientation that the company undertook in 2006, the weight of the Marketing costs has been increasing continuously. As a result, in 2008, it represented 8,5% of Temahome's annual turnover. International fairs (4,3%), point of sale promotional materials (1,7%) and commercial journeys (0,9%) constitute the major cost drivers to this activity. In what concerns advertising, Temahome's expenditures are residual, due to the fact that it uses internet as the primary promotional tool (i.e. furniture blogs, online furniture magazines, blogs of opinion leaders).

Value Drivers: Marketing expenditures should be understood as a crucial investment for a company that needs to get detached from its previous image of a private label furniture manufacturer. The consciousness that Temahome is not able to compete at a price lever with its eastern competitors, makes it advantageous for the firm to increase the levels of differentiation. In that sense, branding is clearly a good option. On the other hand, having a strong brand reduces the threat of imitation, which is particularly important taking into consideration the limited protective power of furniture patents. Therefore, we identify Marketing & Sales as a **core competence** of Temahome.

Margin Decomposition

The most important conclusion from this internal scanning is that the Tomar factory still represents a too heavy burden in Temahome cost structure. The ability to reallocate some of its resources from operative tasks to activities that constitute Temahome's core competence (design and marketing) will be decisive to Temahome's future profitability.

Total Revenues	100%
Cost of Materials Sold/Consumed	33,2%
Gross Margin	66,8%
Outbound Logistics, Commissions and Royalties	19,3%
Marketing	8,5%
Costs with Personnel	
Factory	19,8%
Head Office and Commercials	12,9%
Administrative and Maintenance Costs	
Factory	5,8%
Head Office	3,1%
Profit Margin	-2,6%

Figure 5 - Decomposition of the sales margin

SWOT Analysis of Temahome's Strategic Position

Firstly, we addressed the worldwide trends in furniture consumption and production. Secondly, we analyzed Temahome from an internal perspective and identified its core competences. As a result, we are now able to take a broader picture of Temahome's current situation, regarding both its inner capabilities and resources, as well as its external environment.

Strengths	Weaknesses
<ul style="list-style-type: none"> - International experience, with 90% of the sales generated outside Portugal, which guarantees a broad network of potential customers and distribution partners - International awards represent an intrinsic guarantee of the quality and attractiveness of its products - Association with international top designers - International and dynamic management team 	<ul style="list-style-type: none"> - 97% of Temahome's sales are directed to the HIC, where furniture consumption is growing significantly below the World average - While the brand "Italy" is a valuable asset when it comes to furniture design, the usual international customer is often indifferent to the brand "Portugal" - Heavy cost structure, with large fixed costs associated with the operative activity
Opportunities	Threats
<ul style="list-style-type: none"> - The growth in furniture consumption and the increasing political and monetary stability in some LMIC provide a huge opportunity for Temahome to internationalize its business to these emergent markets - With the emergence of new producers of furniture, Temahome has the opportunity to outsource the production of some labor intensive pieces 	<ul style="list-style-type: none"> - Production of furniture is being shifted towards the LMIC, where the production costs are substantially lower. Portugal weight in the production of furniture has decreased from 0,62% (2004) to 0,53% (2008) - Apart from Denmark and Switzerland, from 2005 to 2008, the furniture consumption in Temahome's 8 most important markets (which represent 84% of the total sales) has grown less than the World average - Downward price pressure (Eastern competitors)

Figure 6 - SWOT Analysis of Temahome's Current Strategic Position

How can Temahome turn these threats into opportunities while taking the most out of its strengths? First of all, Temahome should outsource its non core activities to countries with lower production costs, while keeping in Portugal those activities where its superior performance cannot be replicated through a cost leadership strategy. This will certainly imply a reduction in the costs associated with the Tomar factory. Secondly, taking into consideration the maturity of the HIC's furniture industry, Temahome will have to differentiate its offering in these markets not only in terms of product characteristics (design, colors, materials), but also by broadening its product coverage, in order to incorporate other décor solutions whose consumption is growing faster. Also, obtaining a few partnerships in the contracting segment (decoration of hotel chains, restaurants, bars) would surely have a major impact in Temahome's sales. Finally, since Temahome cannot compete globally at a price level, the only possibility will be to continue to bet in innovation, design and branding. The association with worldwide recognized designers and Temahome's Norwegian heritage should be largely communicated in order to surpass an eventual indifference towards Portuguese furniture.

Turkey : External Scanning

Financial and Economic Context

With a total area of 784.000km² and a population of roughly 70 million inhabitants, Turkey is one of the largest countries in the World. Its boundaries with eight different countries turn Turkey into a huge melting pot with a rich and diverse culture with influences coming from three neighboring regions: Europe, Asia and Middle East.

With an average annual growth rate of 4,4% in the 1990-2008 period, Turkey has significantly outperformed the economic growth of the OECD over the last two decades. In fact, as it may be observed in [Appendix 13](#), the Turkish economic progress could have been even larger had the country not been hit by three major financial crises in the past 15 years (1994, 1999 and 2001).

However, with the financial reforms initiated in 2001, Turkey has made a major step towards the stabilization of its monetary and financial indicators. Firstly, after years of hyperinflation, the Turkish authorities were able to control the inflation rate, bringing it to single digit values. Secondly, the exchange rate of the Turkish currency was stabilized, which culminated in January of 2005 with the introduction of the Turkish Lira (TRY) that substituted an extremely devaluated Lira (TRL)⁵. The stabilization of these two indicators over the last decade can be checked in [Appendix 14](#).

As a result of these increased economic and monetary stability, the inward FDI soared from an average of \$791 Mio in the 90s to \$18.198 Mio in 2008, which make Turkey one of the major destinations of FDI worldwide.

Nevertheless, in 2009, Turkey has been severely damaged by the current global financial crisis. According to the most recent projection of the World Bank, the Turkish GDP is expected to drop 6%. At the same time, the Turkish government forecasts an unemployment rate of 14,8%, which constitutes its highest value in the last two decades. However, while it is undeniable that Turkey was one of the biggest victims of this worldwide economic slowdown, it is also true that it is predicted to be one of the first countries to recover most rapidly. In fact, according to the current FMI forecasts, in 2010 Turkey is expected to return to its growth path with a 3,7% increase in its GDP.

Turkish Furniture Industry

Accompanying the Turkish favorable macroeconomic indicators, the Turkish consumption of furniture has been on a rise since the 2001 reforms were implemented.

⁵ In 2004, 1€ was worth the incredible amount of 1.777.052 TRL.

As a result, from 2001 to 2008, while the annual growth in World's consumption was 8,8%, the Turkish consumption of furniture has increased at a rate of 15,4% per year, reaching an impressive amount of \$5,2 billion (Appendix 15). Today, its share of 1,4% in World consumption makes Turkey the 14th largest consumer of furniture worldwide.

2001-2008	World	HIC	LMIC	LMIC without China	Turkey
Annual Growth Rate	8,8%	5,8%	19,2%	13,1%	15,4%

Figure 7 - Annual Growth Rate in Furniture Consumption from 2001 to 2008

Nevertheless, the fact that the Turkish furniture market has been outperforming the World average in the last decade, does not guarantee *per si* that in the future it will continue to do so. As a result, it is important to evaluate the market potential.

Based on the assumption that in the very long term we expect Per Capita Consumption of Furniture (PCCF) of all countries to converge somehow to the same point, then PCCF can constitute a valid and valuable measure of market potential.

Furthermore, taking into account the deep reforms that took place in the Turkish economic and financial system, as well as the process of approximation towards EU, it is reasonable to assume OECD as a proper benchmark to Turkish PCCF. In fact, this analysis allows us to reach some striking conclusions. In 2008, while a Turkish inhabitant spends on average an annual amount of \$74 in furniture; the typical OECD consumer spends \$256. This \$181 gap (\$256-\$74), if multiplied by the 70 million inhabitants in Turkey, leaves us with a theoretical potential increase in furniture consumption of \$12,6 billion. Taking into consideration that the actual consumption is \$5,2 billion, the potential growth is still enormous.

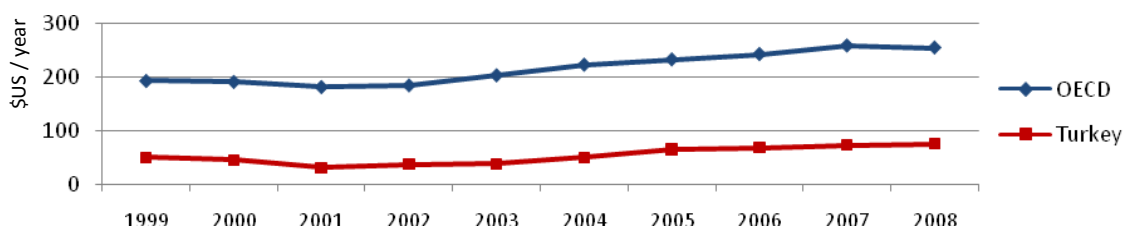


Figure 8 - Per Capita Consumption of Furniture: Turkey vs OECD average

Thus, we can conclude that the furniture consumption in Turkey is rising and is expected to continue to grow over the next years. However, a rising demand does not necessarily mean that the imports of furniture will follow the same trend, since it can be absorbed by a rising domestic supply. In that sense, from the stand point of an exporter of furniture such as *Temahome*, we should analyze the degree of openness of the Turkish furniture industry. For that purpose, the Import/Consumption (I/C) ratio is an extremely meaningful indicator.

Traditionally, Turkish consumption of furniture has been directed towards national production. In fact, just 10 years ago, the consumption of imported furniture represented less than 5% of the total consumption. However, the stabilization of the Turkish lira in 2001/2002, together with the abolishment of some custom duties applied to imported furniture⁶, played a crucial role in the increase of furniture imports. Consequently, the I/C ratio has grown from 5% in 1999 to 13% in 2008, which corresponds to a total growth of 470% in the amount of furniture imported.

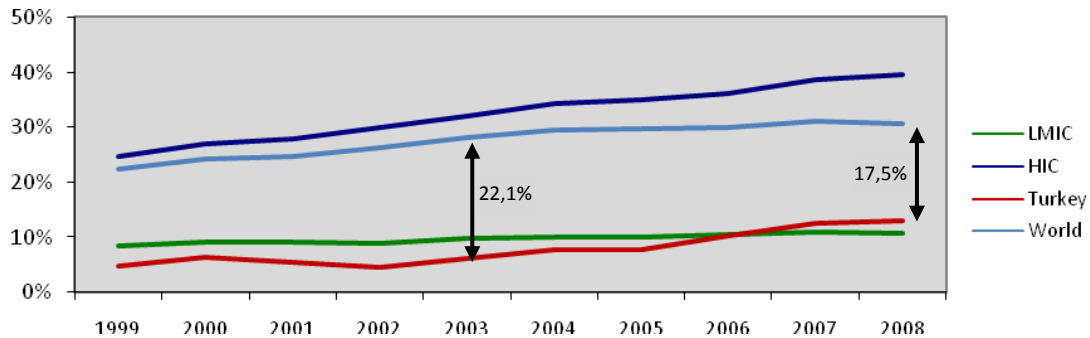


Figure 9 - Evolution of the I/C Ratio of the Furniture Market

As the Figure 9 reveals, by 2008, the Turkish I/C ratio remains significantly below the World's average (30,5%). However, the fact that this gap has been narrowing since 2003 suggests, that in the future, the consumption of imported furniture in Turkey will continue to grow at a faster pace than the consumption of domestic furniture.

Taking all these indicators into consideration, we conclude that Turkey constitutes a market with a lot of potential to Temahome. In one side, the country has been growing well above the World average, and according to the IMF after the 2009 storm is gone, Turkey's GDP is expected to grow 3,7% in 2010 and 4% in 2011. At the same moment, with the stabilization of the inflation and exchange rate, the financial risk of investing in Turkey was significantly eased. Furthermore, from the political point of view, Turkey's desire to become a member of the EU has obliged the country to make some efforts to strengthen its democracy and to open its economy. On the other side, the furniture sector has been rising since 2001 and the potential growth seems far from exploited yet. In that sense, Turkey could be the perfect fit for what we had described in our previous SWOT analysis. First, it represents an opportunity for Temahome to diversify its international exposure which has been too focused in the HIC. Secondly, due its increasingly European influences, its inherent risks are lower than in other LMIC.

⁶ Today, in Turkey, the furniture imported from EU is exempt of any custom duty, contrarily to what happens to the furniture imported from other parts of the World (i.e. China)

Mode of Entry

Temahome's international experience and know how is undoubtedly an extremely valuable asset in every internationalization project. Firstly, because it results in a broad international network of retailers, manufacturers, furniture associations, distributors and agents that is often used in the approach to new local markets. Secondly, it allows the exploitation of synergies especially in the field of logistics (outbound logistics). Finally, with the accumulation of these international experiences Temahome has developed a sort of "best practices guide" when it comes to enter in a new country.

Nevertheless, it would be naive to suggest that Temahome's past achievements internationally are a guarantee of a successful implementation in Turkey. There are no standard success receipts on how to go abroad that can be used everywhere. As a result, the key to a prosperous implementation in Turkey will be a correct balance between the standardization of Temahome's worldwide best practices while adapting to the Turkish idiosyncrasies (a *glocal* approach). In between, a viable plan requires a deep consciousness of the enterprise's own capabilities and limitations.

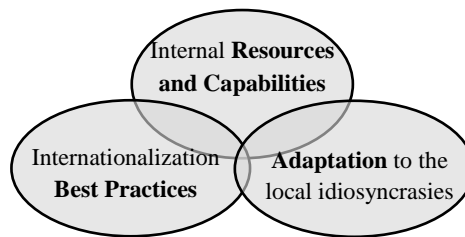


Figure 11 - Implementation Plan Variables

The first question that should be addressed concerns what type of entry mode Temahome wants to use in Turkey. Being a 165-employee company whose international effort is spread over more than 20 countries, Temahome is constrained in the amount of investment that it can deploy when entering a new market. In that sense, while the company has recently opened its first owned retail store in Portugal, that strategy is not a possibility in an internationalization project. First, because that would demand an excessive amount of financial resources, which is not compatible with Temahome's current investment in its 2010 Collection. Secondly, for a company that has no prior international experience as a furniture retailer, it would be extremely risky to experiment for the first time that approach in a country that differs so much from what Temahome is used to. Thirdly, according to the feedback received during our interview with Dr. João Mota Pinto, the bureaucratic process of establishing a new firm in Turkey is quite complex when compared with the European standards.

While the creation of a 100% owned international chain of stores is not a option, one of *Temahome's* strategic goals is to evolve towards a franchising. In one hand, it would strengthen the brand and would allow the firm to move along the value chain (integrating the retailing activity). On the other hand, the risk sharing policy between the franchisor and the franchisee limits the investment and sunk costs that *Temahome* would have otherwise to incur. Nevertheless, being a successful and profitable franchisor requires some accumulated experience and, due to its inherent risks, Turkey is certainly not the proper place for *Temahome* to launch a pilot project. As a result, the concept of franchising should first be developed in Portugal and then in neighboring countries where *Temahome* has already know how.

Thus, we are led to conclude that establishing a physic presence in Turkey is not a viable option and that, instead, *Temahome* should limit its entrance to **exportations**. This choice reduces the required investment, because under these circumstances, the orders are received and processed in Portugal and then sent to the client through external logistic partners. Therefore, in one side, there is no need to invest in foreign fixed assets and, on the other side, no significant HR efforts will be demanded.

Exportation Alternative Approaches

Having decided that exportations are the correct method to enter in Turkey, we should now address the different possibilities that *Temahome* faces on how to operationalize them. In that sense, when exporting to a foreign market, *Temahome* might undertake one out of 3 (+1) possible approaches:

- I. *Direct Sales* to the Furniture Retailer (no intermediate is used);
- II. *Local Sales Agent* that represents *Temahome* in a specified area;
- III. *Local Distributor* that commercializes *Temahome's* goods in a given area;
- +1. *Online Sales*

Temahome past experience has proven that each of the these methods has its own advantages and disadvantages depending on the country of implementation.

Countries/regions where *Temahome* has sufficient know how about the local idiosyncrasies and that share many characteristics with the domestic market may not require the usage of a local partner (*Direct Sales*). In these situations *Temahome* will deal directly with its Clients. While this approach is apparently the less expensive since it generates maximum sales margin (no commission/discounts attributed to an intermediate); on the other hand it may turn to be very costly if the sales effort that is

demanding to Temahome's central office personal becomes too heavy. Moreover, in some cases the absence of a local intermediate may affect the service level (i.e. outbound logistics, formation given to the retailer's sales force, post sale assistance).

Contrarily, when the physical and cultural distance between Portugal and the foreign market is significant, having a good local intermediate is a key success factor. Apart from the sole exception of Mexico where *Temahome* has a local distributor, the general choice has been towards the usage of agents instead of distributors.

Sales Agents offer a cheaper alternative, since the due commission is usually low (6-8%) when compared to the discounts offered to Distributors. Additionally, contrarily to the Distributor, the Sales Agent does not buy the products from Temahome. As a result, the product ownership does not change, which limits the risks associated with the partnership and allows Temahome to maintain a higher control over aspects such as branding and service level. Furthermore, Agents have a supply-driven approach, compared with the predominantly demand driven approach of the distributors. In other words, since distributors actually buy the product themselves, they will only do so, if they recognize that there is already existent demand for that product. Otherwise, they will prefer not to incur the risks of buying a product that they might not be able to resell. On the other side, the Sales Agents have nothing to risk, since they only intermediate the sales between Temahome and the furniture retailer. As a result, they are better suited to perform the mission of raising new demand for a entering firm that lacks any awareness among the local clients.

On the other hand, the *Distributor* offers the advantage of providing storage capacity. This is especially important when there is a substantial physic distance between the exporting and the importing country. Moreover, a carefully chosen distributor may increase the service level, since the geographic proximity between the retailer and the distributor is narrower than the one that separates Temahome with that very same retailer. The inherent risk is that a wrong distributor choice may undermine Temahome's image in the local market. As a result of this higher risk, the searching costs for a new distributor tend to be relatively larger.

Finally, Temahome has two recent experiences with *Online Sales*. This approach was initially implemented in the US market and, due to its success, Temahome decided to apply it also to the Portuguese market. Nevertheless, due to the cultural resistance that still exists to buy (high end) furniture online, this approach does not constitute a substitute channel, but instead a complementary one.

For a further understanding of the main differences and sales processes in each of this modes of entry, it should be consulted [Appendix 16](#).

Methodology used for the Selection of the Exportation Approach

Each of the mentioned approaches has its own merits and flaws depending not only on the company's internal characteristics and experience, but also on the specificities of the country where the firm wants to enter. Therefore, in order to reach a successful implementation strategy we must analyze the idiosyncrasies of the Turkish market and discuss their implications to the entry mode decision. Only then we will be able to accomplish our goal of establishing a perfect balance between *Temahome's* internationalization best practices and the required adaptations to the local market. In that sense, more than understanding Turkey, we need to comprehend what distinguishes Turkey from the countries where Temahome has been operating so far.

With that purpose, we developed a simple model that allows us to depict the image of how the typical *Temahome's* importing country would look like. In order to do so, we used the weight that each country has on *Temahome's* sales and then we developed a weighted average of several national indicators that cover a broad set of fields (cultural, geographic, demographic, economic and furniture specific). Using the obtained results, we were able to compare Turkey with this "imaginary country", named *Average Importer* (AI). Additionally, apart from this numerical comparison, observations and conclusions taken during our journey to Turkey were incorporated. The results and the exact methodology used to the creation of the AI might be consulted in [Appendix 17](#).

Selection of the Exportation Approach

The first conclusion that can be taken is that online sales should not be seen as an immediate priority when entering in the Turkish market. In one hand, the internet penetration is still considerably low (16%) when compared with the AI (66%). In the other hand, the feedback that we received during our interviews in Istanbul is that there is still some degree of cultural resistance to buy furniture online.

In spite of a clear westernization process that has been observed during the last decades in an effort to converge towards the EU, Turkey still conserves many traces from the extinct Ottoman Empire. Additionally, while the AI is a Christian country with an extremely developed education system; Turkey constitutes the first Muslim country where Temahome will be operating, and despite some recent reforms, its education

indicators lag behind the AI standards. Last but not the least, while Turkish is the official language, learning English in Turkey is often a luxury that is only available to a restrict group⁷. As a result, one thing that becomes particularly clear once you step out of the plane in Istanbul, is that very few people are able to speak in English. And it becomes even harder as you move away from the main touristic and business areas.

All together, these aspects originate significant differences in what concerns predominant behaviors, values and mindsets, when we compare Turkey to the AI. Evidently, this **cultural gap** does not favor a direct approach towards the Turkish market.

Apart from this cultural distance, there is also a huge **physical distance**, since most of Temahome's sales are directed to Central/Northern Europe and United States. In fact, if we made a picture of the AI, this imaginary country would be located in the northwest coast of France at a distance of nearly 3.000 km from Istanbul.

The cultural and physical distance combined with Temahome's **lack of experience in a LMIC** admonish the option of undertaking a direct sales approach towards Turkey. In that sense, having a local intermediate becomes an absolutely necessary condition if Temahome wants to enter in this market in the next year. But what type of intermediate should be used? In one hand, the physical distance increases the expected lead time and the costs of transportation, which increases the importance of having storage capacity in the importing country (favors distributor). Additionally, the fact that the Turkish furniture retailing market is extremely fragmented (predominance of small companies) also favors the choice for a distributor, since smaller clients usually ask for smaller and more frequent orders, which also increases the importance of storage capacity. On the other hand, using a Sales Agent allows Temahome to retain larger control over all the components of the marketing mix, which is particularly important in an early stage of the implementation, where Temahome will need to build its image among Turkish retailers and end consumers. Besides that, as we have already mentioned, due to their supply driven approach, sales agents are better suited to raise new demand.

So, while it is clear that Direct Sales and Online Sales do not match the characteristics of the Turkish market, both Distributors and Sales Agents have their own advantages and disadvantages ([Appendix 18](#)). As a result, in order to reach a final decision we need to evaluate and compare the relative importance of the pros and cons associated with

⁷ Many public schools do not teach English, and when they do, the level demanded is relatively low

each alternative. In other words, we need to understand "What are the **key success factors** in Temahome's implementation in Turkey?".

Key Success Factors			
Proactive approach next to the local retailers Creating demand, instead of responding to the existent demand.	Branding Associate Temahome's brand to quality and design. Important to captivate the attention of local opinion leaders.	Risk Control Due to the inherent risks of entering in Turkey, the initial investment and the operational risks should be minimized	Control of the Transportation Costs Due to the Turkish retailer fragmentation and to Temahome tendency towards lowering volume per order

Figure 12 - Key Success Factors for Temahome's profitability when entering in the Turkish Furniture Market

While the distributor provides an advantage over the costs of transportation, the sales agent is expected to have a superior performance regarding the other three priorities (proactive approach to create demand, branding and risk control). In that sense, we indicate the usage of sales agent to be the most suitable one for Temahome's entrance in Turkey. Firstly, its supply driven approach guarantees a more proactive approach towards the generation of, so far inexistent, demand. Secondly, it allows Temahome to keep a higher control over the image and service level that it wants to project in the Turkish market. Finally, due to its lower searching costs and to the fact that product ownership does not change to the intermediate, sales agent minimizes the initial investments and operational risk. Nevertheless, in the future, the relative importance of the first two priorities is expected to decrease, while the control of the transportation costs may become fundamental. In that sense, the possibility of shifting towards distributors should not be overlooked in a near future.

Agent Selection Criteria

According to the feedback that we received during our interview with Dr. A. Kadri Çoklar, every good sales agent or distributor in the furniture business demands geographic exclusivity. Consequently, Temahome will not be able to work with several independent sales agents in the same territory, which increases the importance of choosing a good sales agent right from the beginning. In that sense, during the searching process, Temahome should give particular importance to the following attributes:

- Experience in the furniture business, since experienced agents tend to have a larger portfolio of potential buyers;
- Avoidance of agents that represent products that compete directly with Temahome;
- Suitability of the sales agent in relation to the offering of products directed to the high end market, otherwise the sales agent could ultimately end up undermining Temahome's image in the Turkish market.

Geographic Coverage

The high urban rate and Gini Coefficient indicate that Temahome should be concentrated in the main urban areas, where the wealthier part of the Turkish population is located. As a result, the choice for Istanbul comes out as a natural one, since it concentrates approximately 20% of the Turkish population and it possesses logistics infrastructures that facilitate the transportation of Temahome's goods to Turkey. Particularly, Istanbul is the only Turkish city with direct freight from Lisbon. Nevertheless, in the future, Temahome should consider using the experience and network gained in Istanbul to enter in other large cities, such as Ankara and Izmir.

Implementation

Having decided that sales agents are the correct approach to enter in the Turkish market, we should now advance to propose an implementation plan for Temahome in this market. The following 3-year plan has been developed in accordance to the 4 M's methodology, which comprises four crucial aspects in every implementation project: Man, Money, Minute (time) and Memos.

Man

Due to the mode of entry proposed, this internationalization project will demand limited human resources. Temahome has already a team, coordinated by Dra. Ana Paula Freire, composed by 7 sales managers who are allocated to different geographic regions. Mark Broemer, who has been in charge for the Eastern Europe markets would be the natural choice to manage Temahome's exports to Turkey. Besides that, due to the fact that the sales to the East Europe have been limited, Mark Broemer is one of the sales manager with a lower share in Temahome's total sales, which guarantees available spare time without incurring extra costs.

As the sales manager to the Turkish market, Mark Broemer will play a central role in this internationalization project. His main functions will be to overview the orders gathered by the sales agent, establish punctual contacts with local furniture retailers and to monitor the overall evolution of Temahome's business in Turkey. Additionally, he will represent the closest link between Temahome and the local sales agent. Depending on the subject under focus, additional members should be sporadically incorporated into the team that will coordinate Temahome implementation plan in Turkey.

Apart from Mark Broemer, the point of sales support department will represent the other direct link between Temahome and its local intermediate. This department will manage the complains that the Turkish furniture retailer may present either through the sales agent or directly to Temahome. As a result, in order to optimize the quality of service, the communication flows between Mark Broemer and the sales support department should guarantee that the complains and feedback received are assimilated by the sales manager and then discussed with the responsible areas. For a visual understanding of these relationships it should be consulted Appendix 19.

Minute

After the strategic reorientation, in 2006, the presence in leading international furniture fairs has been playing a major role to Temahome's recognition outside Portuguese boundaries. As a result, in 2010, Temahome will repeat its appearance in three of the most acknowledged trade events worldwide: imm Cologne, Las Vegas World Market Center and Milano Salone Internazionale del Mobile. Due to their mediatic exposure, Temahome uses these events to launch some of its new products every year.

Nonetheless, apart from this strategic importance, international fairs can also be used as a tactical tool to enter in a new market. In that sense, *I-deco Istanbul 2010*, which is the leading furniture fair held in Turkey directed to contemporary furniture, constitutes an opportunity for Temahome. In one hand, it would increase Temahome's the brand awareness among Turkish opinion leaders. On the other hand, the fact that it concentrates in a single space the most important players in the Turkish contemporary furniture industry, allows the creation of a valuable network of competitors, associations, clients, distributors and sales agents.

Thus, *I-deco Istanbul*, which will be held next March in Istanbul, should constitute the first landmark of Temahome's entrance in Turkey. However, in order to take the most out of this costly event, Temahome should undertake a preliminary analysis to gather some information about potential clients and sales agents in Turkey. Due to its broad geographic presence, Temahome can easily use its international network in order to gather some specific feedback about Turkey. By doing so, Temahome will increase the odds of acquiring the right contacts during the furniture fair.

I-deco Istanbul is expected to leave Temahome with a reasonable list of potential sales agents in Turkey. The next step is then to work these contacts and to come to a decision. Due to the fact that a good furniture sales agent always demand territorial exclusivity, in

the end, Temahome will have to choose one, and only one, sales agent that will represent the firm within Istanbul. In that sense, by the end of April, two employees should be assigned to visit Turkey with the goal of developing further the contacts gathered during the furniture fair. In order to evaluate accurately the potential of each sales agent, Temahome should use the criteria that we have previously proposed.

Consequently, by June, Temahome is expected to be already prepared to come to a decision and should then enter in negotiations with the selected sales representative. Nevertheless, in order to limit the risks identified previously, Temahome should reject any attempt to sign a exclusivity contract without a experimental period. The length of the experimental should be subject of a careful analysis. In one side, the longer the experimental period, the more Temahome will get to know the agent before signing any contract with him. On the other side, a too lengthy period may have a negative impact in the sales effort deployed by the agent. Balancing these two aspects a 8 month experimental period would be a reasonable choice. Notice that in Temahome past experiences, whenever a experimental period was established, the average length was around 6 months. However, due to the higher risk inherent to Turkish implementation, we believe that the number of months should be adjusted accordingly.

In order to increase its probabilities of success (and consequently avoid extra searching costs), in the beginning of the experimental period, an initial formation should be given to the sales agent about Temahome and its product features.

By the end of the experimental period, in case of a satisfactory performance, the agent will be granted with a exclusive Agency Contract and would be invited to visit Portugal in order to receive one week intensive formation.

Further details regarding the timeline of this project should be consulted in Appendix 20, where it is also presented a contingency plan in case of a non satisfactory performance of the agent during the 8-month experimental period.

Money

The initial investment of entering in Turkey is expected to represent approximately 85.000€, which represents less than 1% of our estimate for Temahome's total sales revenues in 2009. From this 85.000€, 80.000€ will be devoted to the I-deco Furniture fair, while the other 5.000€ represent the agent searching costs. The underlying calculations for these values are presented in Appendix 21.

Since the bulk of this investment will be deployed in the I-deco 2010 Istanbul furniture fair, it will be crucial for Temahome to take the most out of its presence in this event. Although the company might consider returning to the I-deco fair in the future in case of failure with the selected agent, this approach should be definitely avoided. Consequently, during this event, Temahome should gather a sufficiently broad network of contacts that allow the company to maintain a set of agents and distributors with whom Temahome may work in the future. Particularly, Temahome should not restrain its contacts to players operating in Istanbul, since in the future the company may decide to enter in new regions within Turkey.

Besides this initial investment, the meetings in Turkey and the annual formation given to the sales agent in Lisbon, also represent fixed costs associated with this implementation plan. While the journeys are expected to cost roughly 10.000€, the Lisbon meetings will cost nearly 5.000€. Notice that both of these values are already the total amount for the three years of this project. The underlying calculations for these values are presented in [Appendix 22](#).

In what concerns operational costs, we underline the weight of the cost of materials sold (CMS), agent commissions, design royalties over sales, transportation costs and point of sales promotional material. Also, due to the Turkish currency risk (as we depicted in our comparison with the Average Importer) should persuade Temahome to incur in some hedging costs, as an insurance for eventual shocks in the EUR/TRY exchange rate.

Regarding the expected revenues, we forecast a annual turnover of 81.000€ in 2010⁸. The assumptions used to reach this estimative are presented in [Appendix 23](#). In 2011, assuming a growth of 30% in the monthly sales, the annual sales revenues would be 210.000€. Although a 30% increase may seem unreasonable, we should be aware that we are dealing with small quantities (and high prices), so incremental units sold have a significant impact in the percentage growth. Finally, in 2012, we expect sales revenues of 252.000€ (20% growth in the monthly revenues).

Taking into consideration the forecasted revenues, the expected initial investment and the other (fixed and variable) costs that we have estimated for the next 3 years, we project a Internal Rate of Return (IRR) for this project of 163%. As a result, while in 2010, due to the significant initial investments, the net profit of operating in Turkey will

⁸ It should be noticed that in 2010, Temahome is expected to start selling its products in June. As a result, to reach this estimative we have considered only 6 months of sales.

be negative (-56.000€), in 2011 (98.000€) and in 2012 (125.000€) are expected to clearly offset this investment.

	2010	2011	2012
Sales Revenues	80.725,71 €	209.886,86 €	251.864,23 €
CMS	17.001,62 €	44.204,22 €	53.045,06 €
Agent Comission	5.650,80 €	14.692,08 €	17.630,50 €
Design Royalties	2.825,40 €	7.346,04 €	8.815,25 €
Logistics	2.092,93 €	5.441,63 €	6.529,96 €
Transportation Costs	12.504,85 €	16.990,29 €	20.388,34 €
Promotional Costs	6.458,06 €	14.692,08 €	12.593,21 €
Sales Margin	34.192,05 €	106.520,53 €	132.861,92 €
Meetings Turkey	2.554,03 €	0,00 €	0,00 €
Lisbon Annual Meeting	-	-300,00 €	0,00 €
Initial Investment	84.916,02 €	300,00 €	-
Hedging Costs	807,26 €	2.098,87 €	2.518,64 €
Net Profit	-54.085,26 €	104.421,66 €	130.343,27 €

Figure 13 - Financials for the 3-year Implementation Project

A further explanation on how the operational costs (CMS, agent commission, royalties, transportation, logistics and promotional costs) were calculated should be consulted in Appendix 24.

Memo

When operating in uncertain and riskier environments, such as Turkey, you will hardly be sure whether you are taking the right decision or not. As a result, under these circumstances, it is crucial to develop mechanisms that allow you to reverse or adapt your previous choices. Nevertheless, this flexibility is useless without a rigorous monitoring plan. Basically, the opportunity to adapt is worthless, unless you are able to identify what is failing in due time.

Consequently, during the life of this 3-year implementation plan, Temahome should monitor closely the evolution of some key indicators. By doing so, as long as an indicator signals a rising problem, a *red flag* will be immediately haired and Temahome will have the opportunity to tackle the problem from its early beginning. The nature of these indicators should be broad enough to incorporate the most important aspects of Temahome's export activity to Turkey.

Regarding **financials**, more than keeping track of the sales volume, Temahome should be focused on the sales margin. Since Temahome will direct its offering in Turkey to its high end products (Lisbon Collection) the return per each euro generated in sales should be higher than Temahome's worldwide average. In that sense, the comparison between

the relative evolution of these two indicators will sign any deviations in the product mix delivered in Turkish territory.

Additionally, taking into consideration the huge physical distance that we have already mentioned, **logistics** will have an essential role in Temahome's exports to Turkey. The fact that sales agents do not have storage capacity in the importing country further increases the necessity to control the logistic costs. In fact, the absence of local capacity obliges Temahome to send its products from Portugal every time it receives new orders. As a result, in its activity, Temahome will be faced with an important trade-off between delivery time (which has a negative relationship with customer satisfaction) and transportation costs. In one hand, Temahome should not send each order individually, otherwise the transportation costs would grow disproportionately⁹. On the other hand, postponing the delivery of several orders with the purpose of sending a full container will have an immediate impact in the average delivery time. As a result, the balance between these two indicators should be monitored every month. In the future, a *red flag* may indicate that Temahome will have either to create local/neighbor storage capacity (outsource some space in a warehouse) or to change its approach to a distributor. Regarding **quality and service level**, apart from the delivery time, the evolution and the motives beneath the number of complaints received from Turkey should be monitored. Additionally, a satisfaction enquire should be send to the furniture retailers at least three times a year. This enquire should comprise not only aspects related to the product characteristics but also an evaluation of the service delivered by the sales agent.

Finally, it is important to establish indicators that allow an evaluation of the **sales agent commitment** to sell Temahome's products. With that purpose, the number of retailers that were visit each month can constitute a good measure. Ultimately, the agent may reach the proposed objectives while its commitment is relatively low. This situation would indicate that the sales generated by this agent are far from its potential and that Temahome should propose more challenging objectives.

Conclusion

In 2006, the consciousness that it was impossible to compete at a price level with the emergent Eastern competitors resulted in a deep reorientation of Temahome's strategy.

⁹ It should be noticed that there are scale economies regarding transportation to Turkey. While a full 40-foot container from Portugal to Turkey costs approximately 1.250€, one tenth of this container costs substantially more than 125€

As expected, the transition from a private label furniture producer into a designer and manufacturer of quality home decoration solutions has proven to be a huge challenge. While significant developments have been made in what concerns the firm's design and marketing capabilities; Temahome future profitability is profoundly attached to the ability to redefine the role of the operative tasks in its value chain.

At the same time, while the HIC economies are reaching a maturity stage, it will become absolutely crucial for Temahome to exploit rising opportunities in emergent economies, where the consumption of furniture is still to boom. In this context, we presented Turkey has an interesting option. In one hand, over the last 8 years, the consumption of furniture in Turkey has been growing at an average rate of 15,4% per year. On the other hand, the low per capita consumption of furniture, reveals that the country is still distant from its full potential.

Nevertheless, Temahome should be aware that Turkey represents a relatively different market from what the firm is used to. In fact, the comparison between Turkey and Temahome's Average Importer has revealed two distinct realities in several fields (cultural, geographic, economic and furniture industry). In this context, it is absolutely crucial to minimize the risks associated with the implementation plan right from the beginning. As a result, we suggest the usage of sales agent as the most suitable mode of entry. Nevertheless, due to the higher level of uncertainty of this market, it will be crucial to guarantee some degree of flexibility to future adaptations. Thus, establishing a continuous monitoring scheme constitutes a necessary condition for Temahome's long-term profitability in Turkey.

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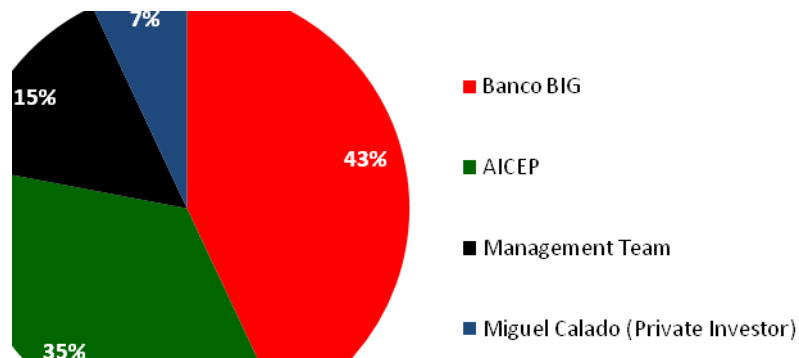
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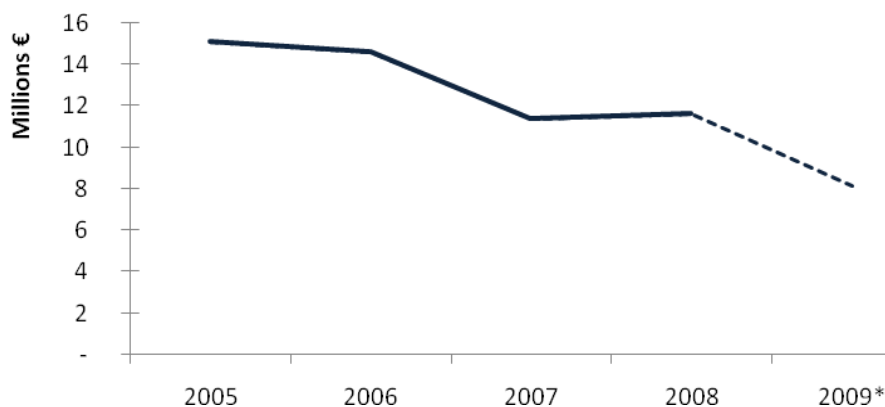
Appendix 1

Temahome Current Shareholder Structure



Appendix 2

Sales Revenues Evolution



* Estimative based on the arithmetic average of the monthly sales from January until September

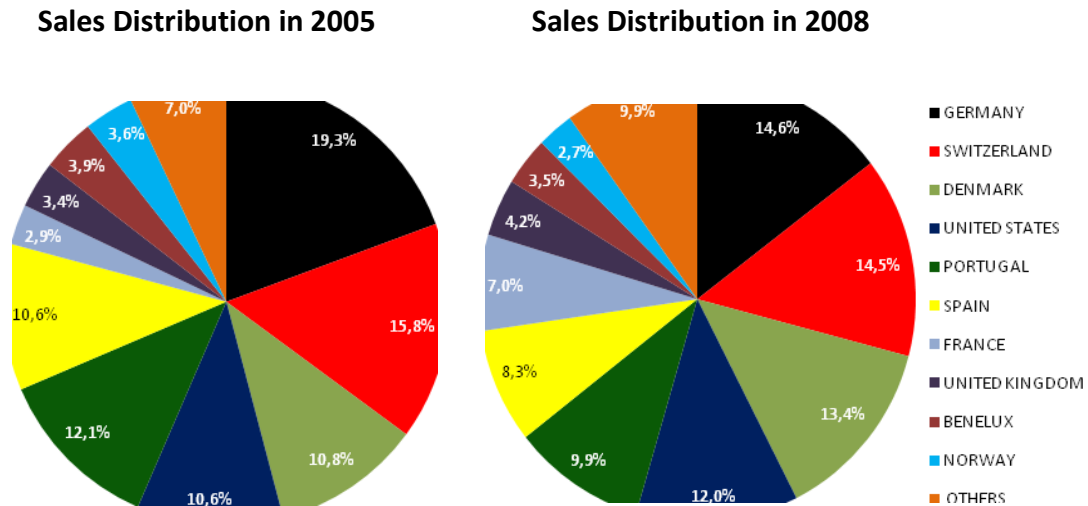
After the 2006 strategic orientation the total revenues slumped significantly. In 2009 the total revenues are expected to decrease up to 30%, which goes in line with the forecasts for the rest of the industry.

It should be noticed that furniture manufacturers are particularly prone to the effects of the current economic crisis, due to the fact that:

- I. During economic downturns, consumers easily postpone the acquisition of relatively durable goods, such as furniture;
- II. The furniture industry has a positive correlation with the real estate sector, which has been severely damaged with the actual crisis.

Appendix 3

Sales Geographic Distribution

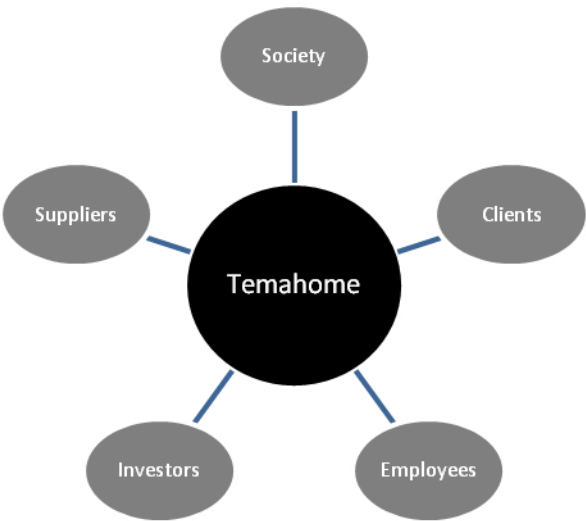


Despite the strategic reorientation, in 2006, the sales distribution remained roughly similar. Nevertheless, there are some differences that should be noticed:

- The level of dependency on its bigger markets has diminished. In fact, the weight of the two most important countries (Germany and Switzerland) decreased from 35,1% in 2005 to 29,1% in 2008.
- France and Denmark weight has been increasing over the last years.
- The sales diversification has been growing as the increase in the weight of the component “Others” reveals.

Appendix 4

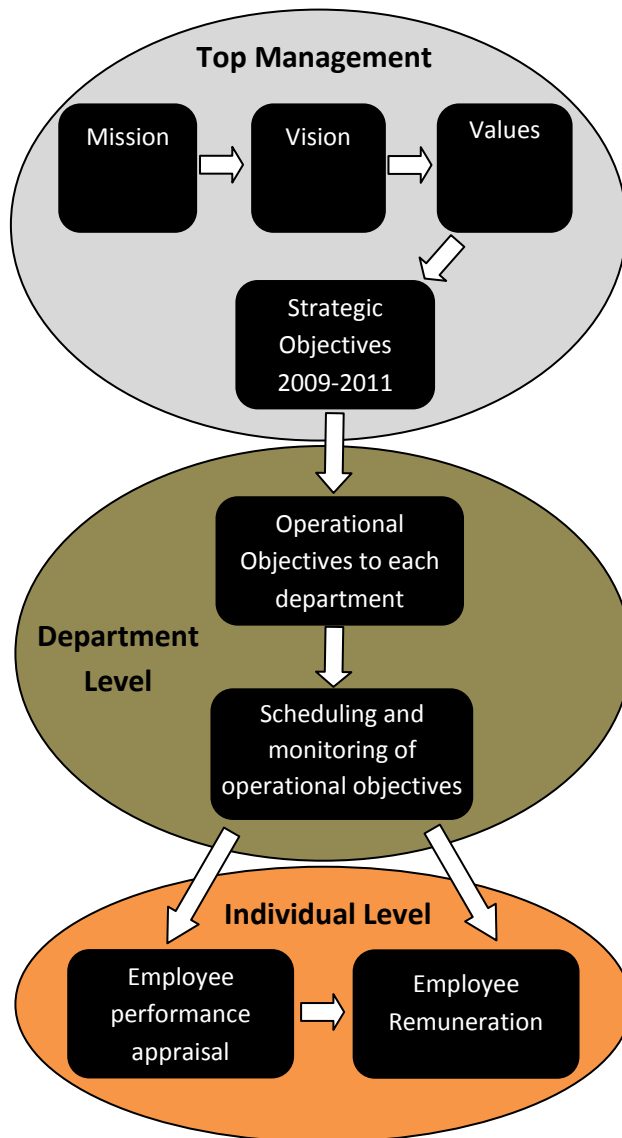
Vision regarding the relationship between Temahome and its stakeholders



Employees	<ul style="list-style-type: none">• Inspire employees' pride of working at TemaHome by offering them continuous opportunities for professional and personal growth
Clients	<ul style="list-style-type: none">• Provide its clients with the excellence of products and services by offering complete furniture and décor solutions for the home
Suppliers	<ul style="list-style-type: none">• Establish win-win relationships with its suppliers, creating a wealthy economic environment and promoting the communication flows
Investors	<ul style="list-style-type: none">• Guarantee sustainable returns to the capital invested
Society	<ul style="list-style-type: none">• Control the environmental impacts associated with its activity, in order to minimize its negative effects and prevent pollution

Appendix 5

Operationalization of the Mission statement



- Where does Temahome want to be in the future? How does it want to be seen? And what is the personality of the enterprise?

- Strategic objectives are medium term goals (3-5 years) established by the top management and whose achievement has strategic importance in order to build a sustainable and profitable business.

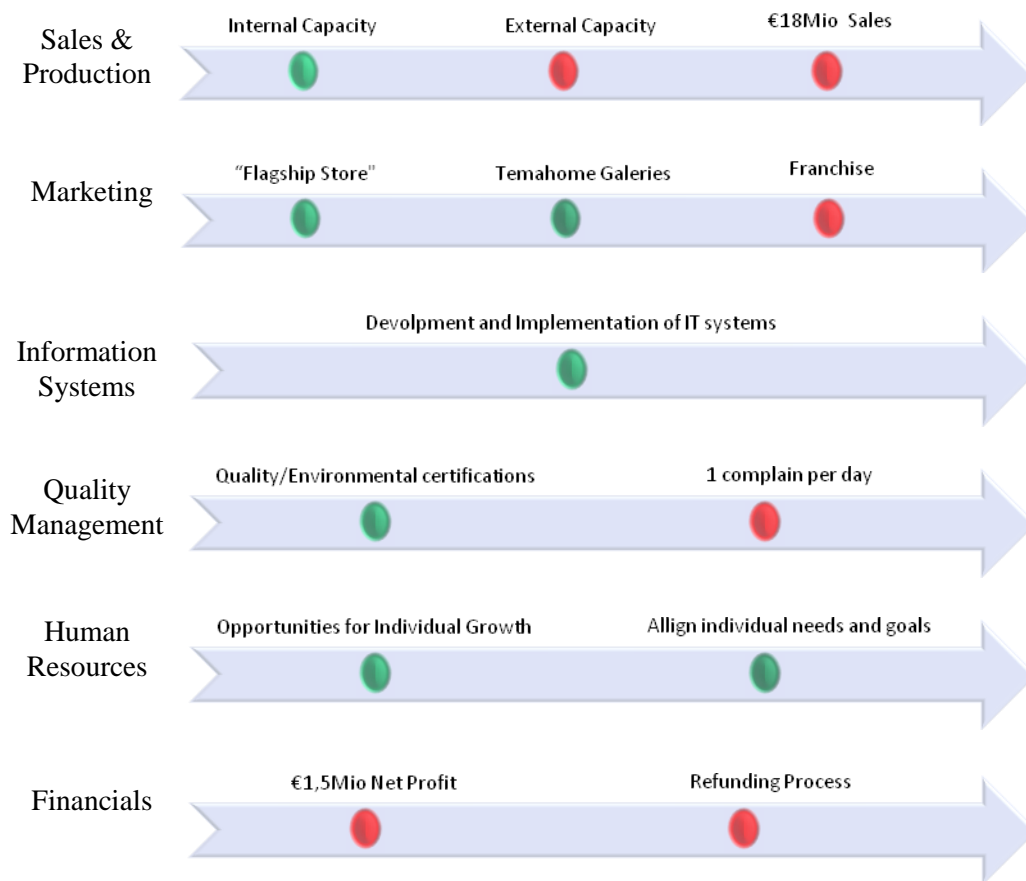
- Every year, quantifiable operational objectives are established to each department. They are designed with the general purpose of fulfilling the Strategic Objectives plan.

- Each operational objective is monitored every month, providing valuable feedback for each department.

- There is a variable component in every employee's remuneration which is linked to his/her individual performance, as well as to the achievement of the objectives that were established at departmental level

Appendix 6

Evaluation of the current achievements to the 2009-2011 Strategic Objectives

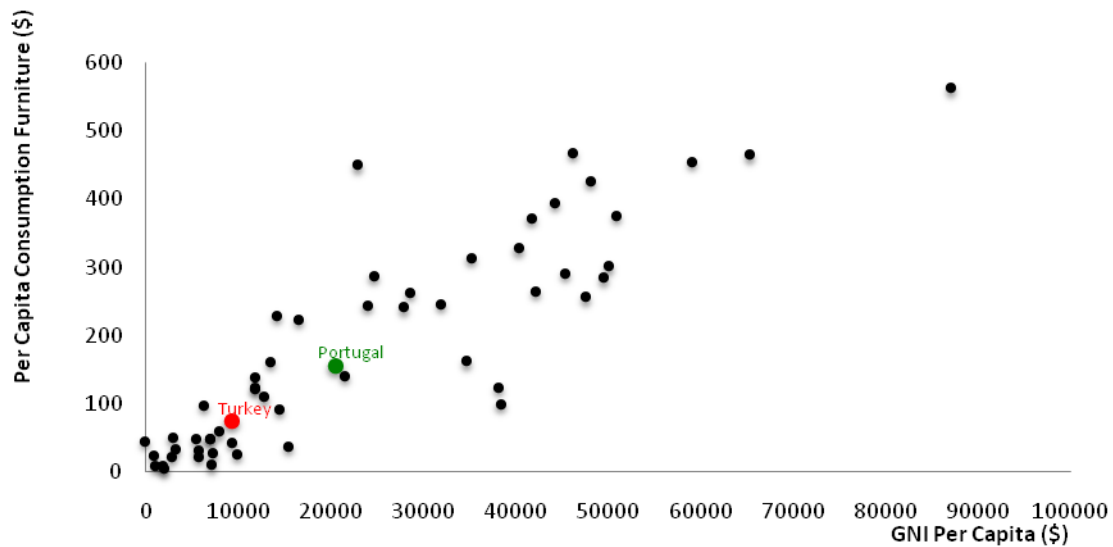


● Accomplishment is within the schedule

● Accomplishment is out of the schedule

Appendix 7

Relationship between Per Capita Consumption of Furniture and Per Capita GNI



Correlation Coefficient = 0,878

Per Capita Consumption of Furniture (PCCF) was calculated using the annual consumption figures from the set of 60 countries included in the Csil report¹⁰ (World Furniture Outlook 2009/2010). Then, using World Economic Outlook Database (October 2009) from the IMF, we computed the PCCF for each country.

GNI per capita (in US dollars) values were obtained from the World Development Indicators database (7 October 2009) from the World Bank.

As the graph attests, the correlation coefficient of 0,878 reveals that wealthier countries are associated with higher per capita expenditures in furniture.

¹⁰ According to the World Furniture Outlook 2009/2010, it is estimated that these 60 countries account for 92% of the World trade in goods. Therefore, in this analysis we will neglect the proportionally residual consumption of furniture of the rest of the World

Appendix 8

Methodology used for Country Segmentation

Criteria of Segmentation: Per Capita Gross National Income (GNI)

Using the World Bank Classification, the set of 60 countries included in the Csil report 11 (World Furniture Outlook 2009/2010) was segmented according to their level of per capita GNI.

World Bank Classification (GNI per Capita)		Nº
Low Income	\$975 or less	1
Medium Low Income	\$976 - \$3855	7
Medium High Income	\$3856 - \$11905	15
High Income	\$11906 or more	36

Then, two major groups were defined:

High Income Countries (HIC): composed by 36 countries whose GNI per capita was higher than \$11906.

Low and Medium Income Countries (LMIC): composed by 24 countries whose per capita GNI was lower than \$11906.

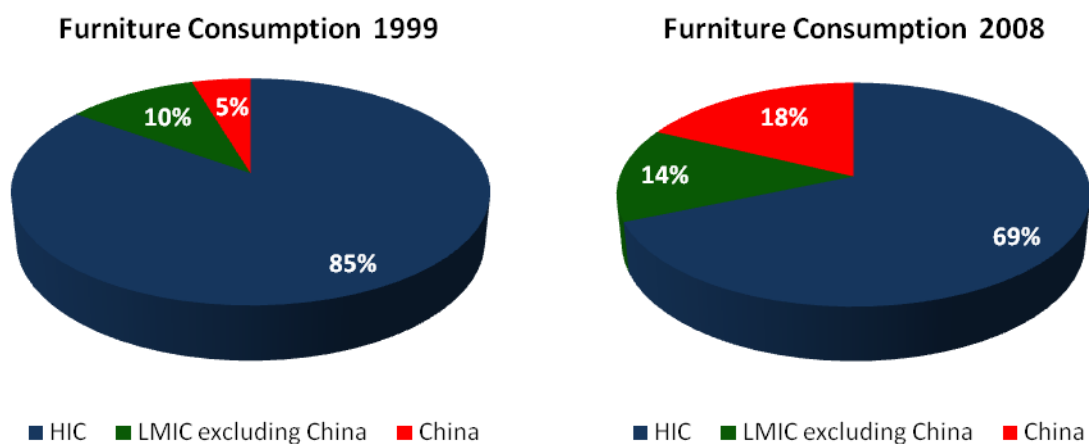
HIC (36 countries)			
Australia	Finland	Japan	Slovakia
Austria	France	Kuwait	Slovenia
Belgium	Germany	Malta	South Korea
Canada	Greece	Netherlands	Spain
Croatia	Hong Kong	New Zeland	Sweden
Cyprus	Hungary	Norway	Switzerland
Czech Republic	Ireland	Portugal	U. Arab Emirates
Denmark	Israel	Saudi Arabia	United Kingdom
Estonia	Italy	Singapore	United States

LMIC (24 countries)		
Argentina	Latvia	Russia
Brazil	Lebanon	Serbia
Bulgaria	Lithuania	South Africa
Chile	Malaysia	Taiwan
China	Mexico	Thailand
Egypt	Philippines	Turkey
India	Poland	Ukraine
Indonesia	Romania	Vietnam

¹¹ According to the World Furniture Outlook 2009/2010, it is estimated that these 60 countries account for 92% of the World trade in goods. Therefore, in this analysis we will neglect the proportionally residual consumption of furniture of the rest of the World

Appendix 9

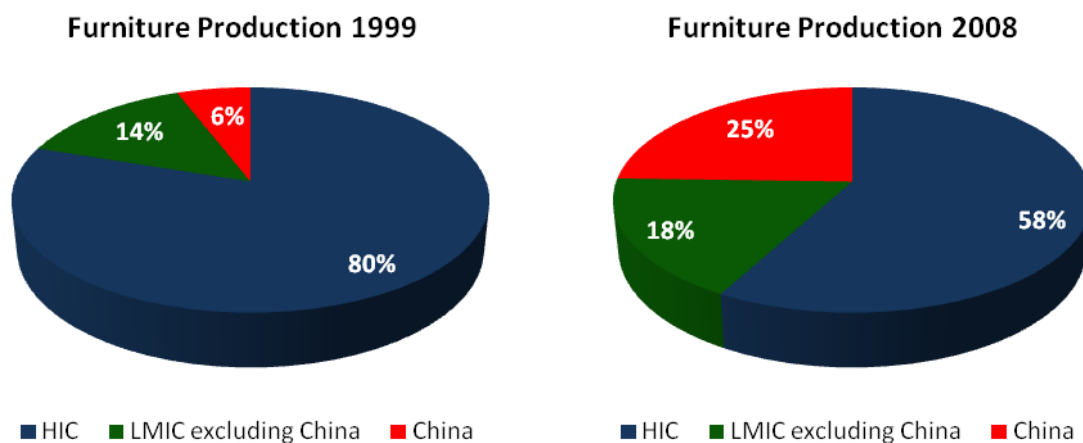
World Distribution of Furniture Consumption



Source: Data for each country collected from the World Furniture Outlook 2009/2010 (Csil Report)

Appendix 10

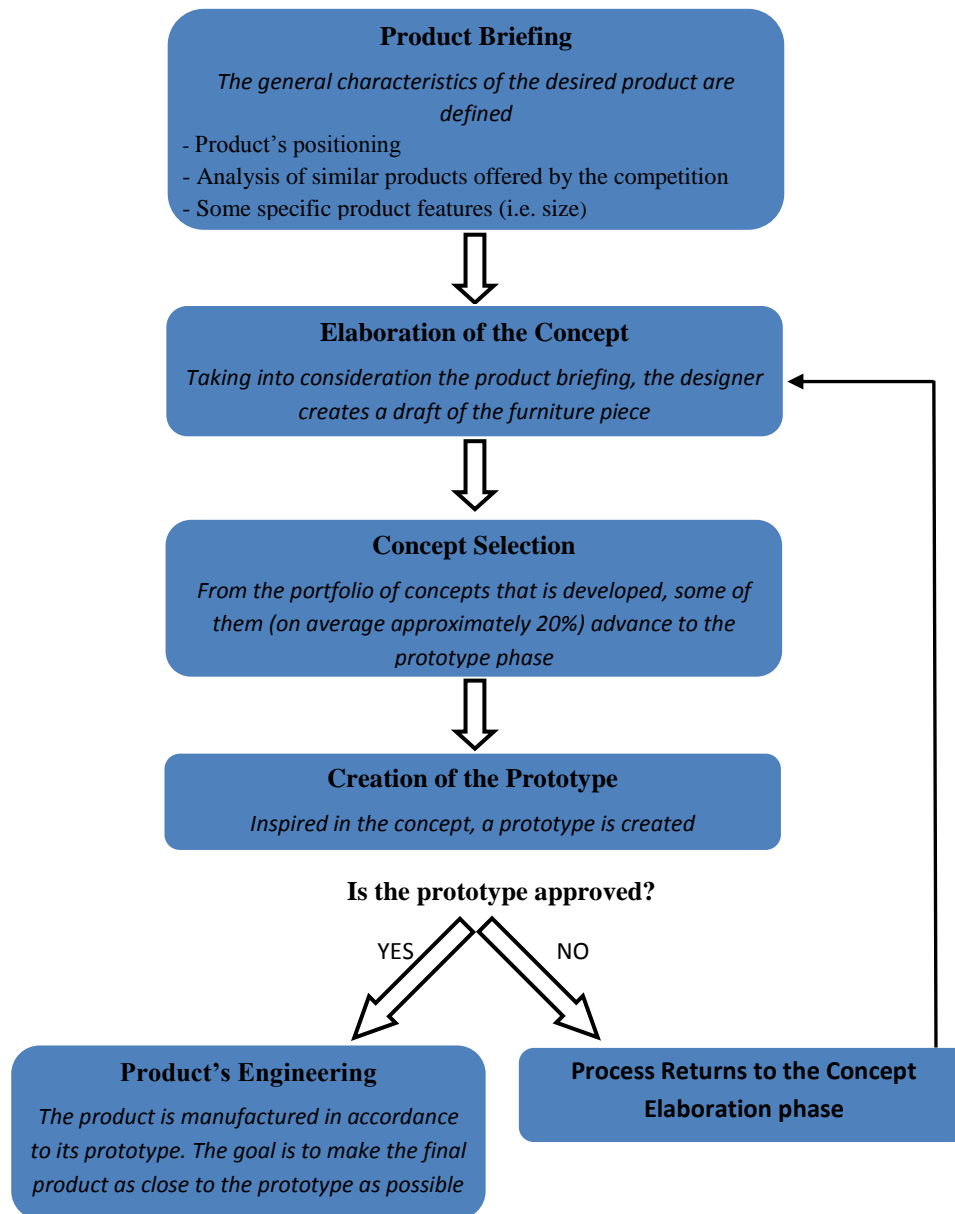
World Distribution of Furniture Production



Source: Data for each country collected from the World Furniture Outlook 2009/2010 (Csil Report)

Appendix 11

Product Conception Process (Integrated Quality Management System)



Both the *selection of the concepts* and the *approval of the prototypes* are undertaken by a multidisciplinary team, composed by elements of different departments, such as supply chain, marketing and production.

Appendix 12

Temahome Product Lines: Essence, Style and Lisbon Collection

essence



The line Essence was created in 2006 in order to reduce the negative impact that the strategic reorientation was predicted to have in the sales directed to the most price sensitive retailers. As a results it targets the medium end of the market and represents a less harsh increase in relation to the prices that Tema used to practice as a private label manufacturer. Although its weight has been diminishing and is expected to continue this trend, it still clearly represents the largest share of Temahome's sales (80%).

It has a very broad product coverage: furniture and other home decoration solutions for the bedroom, living room and dining room¹².

style



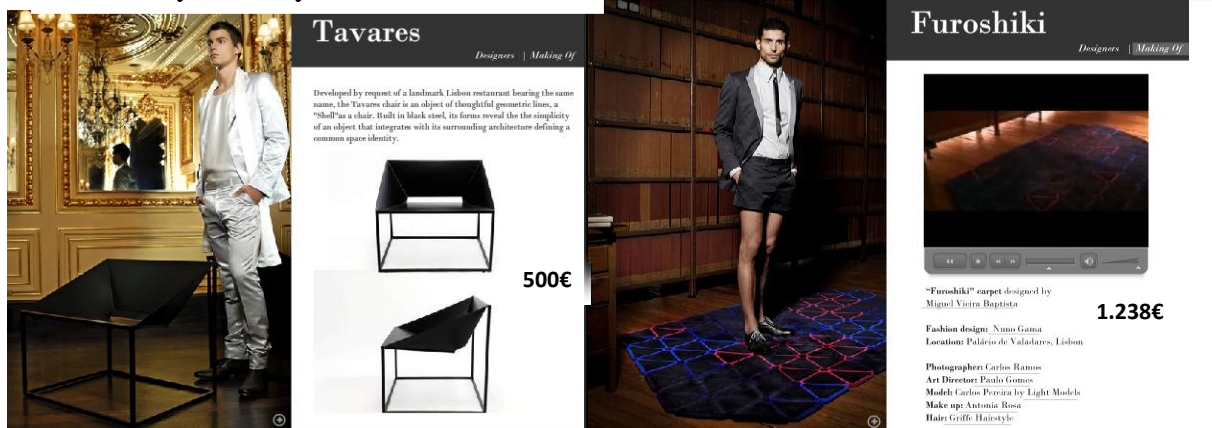
The line Style was also created in 2006 with the aim to target a client with superior purchase power and that values small details in a piece of furniture. The quality of the materials used, the design that meets in every moment the rising trends, and the quality of the finishings (i.e. backward part of the pieces) justifies its higher price in relation to the line Essence.

The amplitude of its product coverage is similar to the line Essence.

With the introduction of the line Lisbon Collection the line Style lost some of its significance. As a resulted, in a near future (2 years), these two lines will be aggregated into one single line/catalogue¹¹.

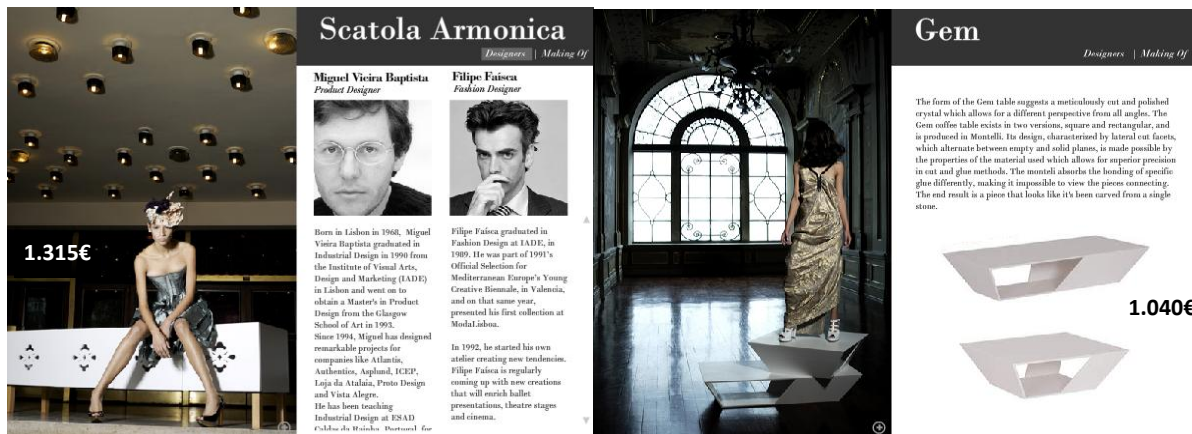
¹² Indicated prices are applicable within the Portuguese territory and do not include assembly and transportation fees (if applicable)

The Lisbon Collection was created in 2009 and it constitutes the most recent bet of Temahome in order to target the high end of the home decoration market. Due to the similarities between the name Temahome and its predecessor Tema, the company often faced some difficulties in order to detach itself from the image of a private label brand. In that sense, the Lisbon Collection is an attempt to show a totally new identity to the eyes of the client.



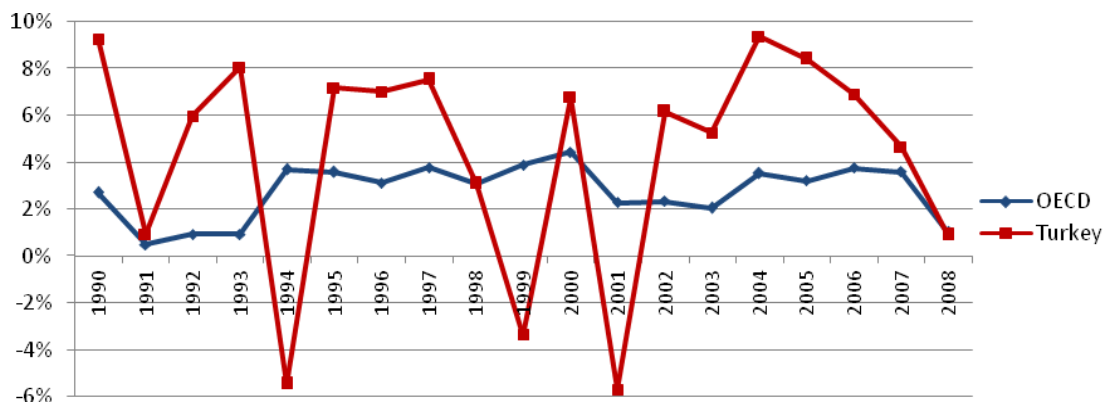
The Lisbon Collection has its own website and, as the figures attest, each product is presented individually, together with a brief presentation of the designers and a short video of the product. Each piece of the Lisbon Collection is produced in limited quantities and is numbered and signed by its creator, in order to transmit the idea of uniqueness. In 2009, the collection was constituted only by five pieces: Handle, Tavares, Furoshiki, Scatola Armonica and Gem. In 2010, the product coverage will be enlarged and it will have for the first time the collaboration of top international designers, such as Karim Rashid and Jakob Wagner¹³.

¹³ Indicated prices are applicable within the Portuguese territory and do not include assembly and transportation fees (if applicable)



Appendix 13

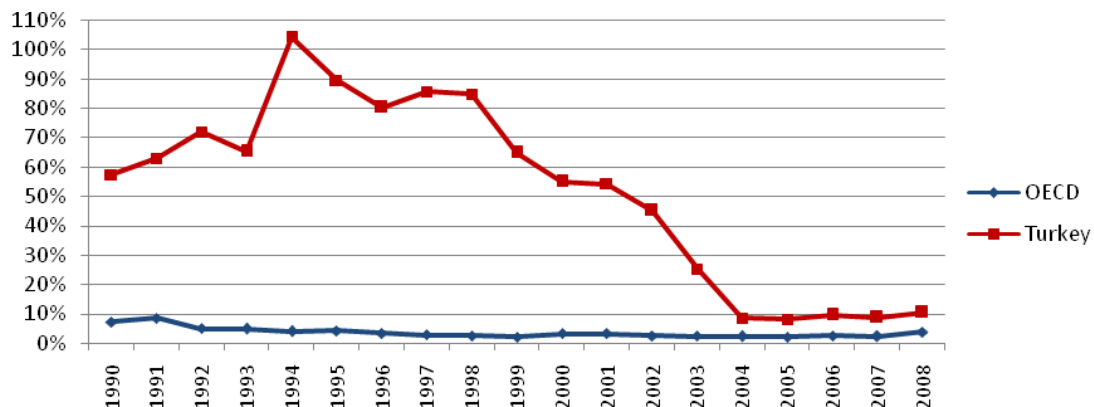
Annual GDP Growth Rate: Turkey vs OECD Average



Source: Data for each country collected from the World Economic Outlook Database (October 2009) of the IMF

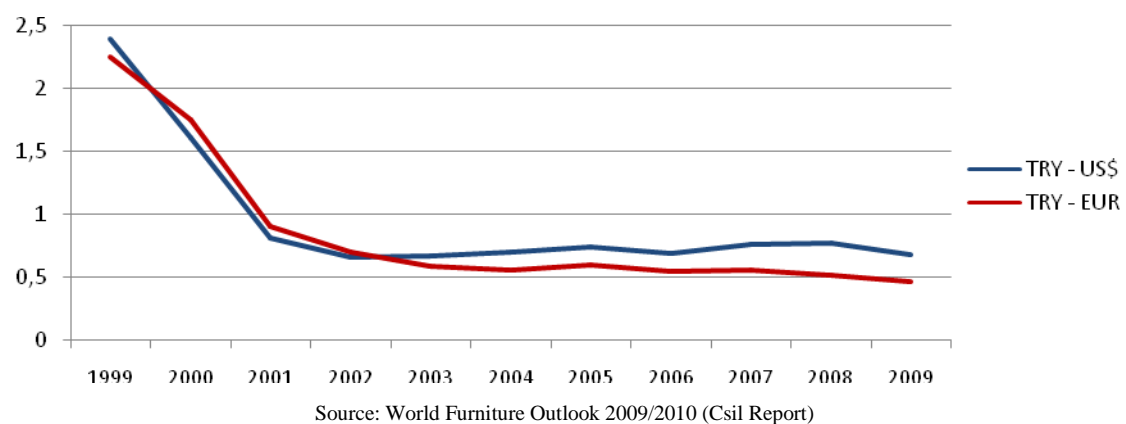
Appendix 14

Annual Inflation Rate : Turkey vs OECD Average



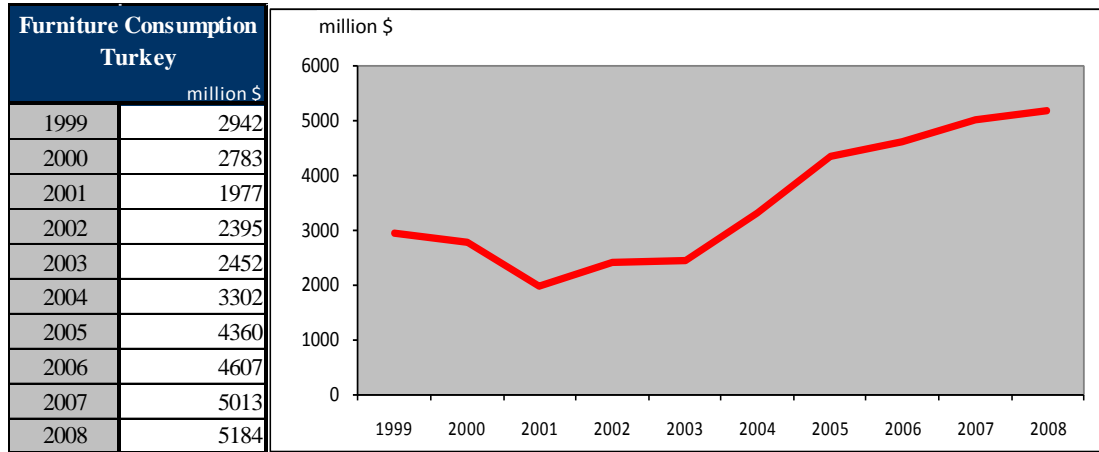
Source: Data for each country collected from the World Economic Outlook Database (October 2009) of the IMF

Exchange Rate Evolution : TRY/US and TRY/EUR



Appendix 15

Furniture Consumption in Turkey



Source: World Furniture Outlook 2009/2010 (Csil Report)

Appendix 16

Direct Sales



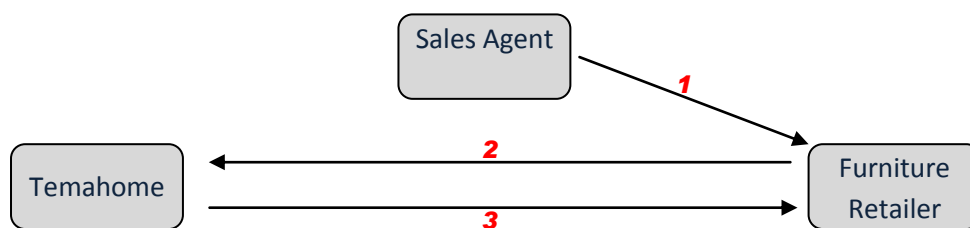
- Temahome receives orders from the Furniture Retailers and sends them the requested products.
- Negotiation terms are decided between Temahome and the Retailer, without the intervention of any third party

Distributors - Demand-driven process



- Retailer demands Temahome products to the Distributor
- Distributor buys Temahome's products at discount and stores them. Ownership changes from Temahome to the distributor.
- Distributor resells those products to the Furniture Retailer. Negotiation terms are decided between the Distributor and the Retailer.

Sales Agent - Supply-driven process



- Sales Agent gathers new orders among furniture retailers. Acceptance of terms negotiated between the Agent and the retailer is dependent on Temahome's approval.
- The furniture retailer sends the orders either directly to Temahome or through its Sales Agent
- Temahome receives the orders and sends the requested products directly to the furniture retailer. Sales Agent oversees this process.
- After the sale is processed, Temahome pays the due commission to the Sales Agent, who becomes then in charge of the local post purchase assistance as well as giving formation to the retailer sales personnel about Temahome's product features.

Appendix 17

Average Importer vs Turkey

The Average Importer (AI) was created through the computation of a weighted average based on the relative weight that each country had in Temahome's 2008 total sales.

	Average Importer	Turkey
Demographic		
Population	65.820	69.659
Median Age	39,0	26,5
Urban Rate	76%	69%
Cultural		
Internet Users	66	16
Education	0,960	0,828
Geographic		
Area	1.434.153	769.632
Latitude	46	39
Longitude	7	-35
Economic		
GDP per Capita	48.623	10.479
Gini Coefficient	33,1	43,2
Inflation Rate	3,4%	10,4%
Currency Risk	3,12%	11,04%
Furniture Specific		
Per Capita Consumption	350	74
I/C Ratio	53%	13%
Consumption Growth	8,6%	16,9%

Population: Data for each country collected from the World Economic Outlook Database (October 2009) of the IMF.

Median Age: Data for each country collected from the World Population Prospects (2008 Revision) of the United Nations Population Division.

Urban Rate: Data for each country collected from the World Factbook, of the Central Intelligence Agency (CIA).

Internet Users: Measured as the number of internet users per 100 inhabitants. Data for each country collected from the Millennium Development Goals Database of the United Nations Statistics Division.

Education: It represents the education component of the Human Development Index (HDI). Data for each country collected from the Human Development Indices of the United Nations Development Programme.

Area: Data for each country collected from the World Factbook, of the Central Intelligence Agency (CIA).

Latitude: Positive signal equals North and negative signal equals South. Data for each country collected from the World Factbook, of the Central Intelligence Agency (CIA).

Longitude: Positive signal equals West and negative signal equals East. Data for each country collected from the World Factbook, of the Central Intelligence Agency (CIA).

GDP per Capita: Data for each country collected from the World Economic Outlook Database (October 2009) of the IMF.

Gini Coefficient: Data for each country collected from the World Development Indicators (2009) of the World Bank.

Inflation Rate: Data for each country collected from the World Economic Outlook Database (October 2009) of the IMF.

Currency Risk: This indicator measures the volatility of the country's currency in relation to the Euro. In order to compute it, we have collected the daily exchange rates of the last 8 years for each currency. Then, we calculated the variance (square of the standard deviation) of the exchange rates during this period. Dividing this value over the average exchange rate, we obtained the average % variability of the exchange rate, which we named Currency Risk. Countries with the currency Euro were classified with zero currency risk. Data regarding the daily exchange rates was collected from the database of the Dutch central bank (DNB).

Per Capita Consumption: It represents the average annual expenditure in furniture per inhabitant. It results from the division of the national consumption per year over the country's total population. Furniture consumption data was obtained through the World Furniture Outlook 2009/2010 of the Csil.

I/C Ratio: It represents the weight of imported furniture in the total amount of furniture consumed. Data for each country collected from the World Furniture Outlook 2009/2010 of the Csil.

Consumption Growth: It indicates the average annual growth in furniture consumption from 2003 to 2008. Data for each country collected from the World Furniture Outlook 2009/2010 of the Csil.

Appendix 18

Mode of Entry Selection : Summary Table

		Direct Sales	Sales Agent	Distributor	Online Sales
Temahome Resources & Capabilities		Initial investment: Barely existent	Initial investment: Limited (searching costs)	Initial investment: Limited/Moderate (searching costs)	Initial investment: Moderate (development of sales platform, creation storage capacity)
		N° of previous experiences: Some Temporal executability: Immediate	N° of previous experiences: Many Temporal executability: 2 / 4 months	N° of previous experiences: One (Mexico) Temporal executability: 3 / 6 months	N° of previous experiences: Two (Portugal,US) Temporal executability: 6 months / 1 year
Temahome International Best Practices Guide		Countries/regions where <i>Temahome</i> has sufficient know how about the local idiosyncrasies and that share many characteristics with the Portuguese market	Countries with considerable physical and cultural distance in relation to Portugal	Countries with considerable physical and cultural distance in relation to Portugal	When the country has high internet penetration among the target customer, and when there is cultural openness to buy furniture online
Turkey Specific Characteristics	Cultural	Cultural distance (-) Cultural distance makes it imperative to have a local intermediate.	Cultural distance (+) Cultural distance makes it imperative to have a local intermediate.	Cultural distance (+) Cultural distance makes it imperative to have a local intermediate.	Cultural distance (-) Low internet penetration (-) Strong cultural resistance for buying (high end) furniture online.
	Demographic	Although the urban rate is lower than what Temahome is used to, more than two thirds of the population is concentrated in the urban areas. Temahome should focus on main cities			
	Geographic	Physical Distance (-) Harder to handle all the outbound logistics and post purchase service from Portugal (-) Lack of storage capacity is a disadvantage	Physical Distance (+) Agent oversees the outbound logistics and guarantees local post purchase service (-) Lack of storage capacity is a disadvantage	Physical Distance (-) Outbound logistics and post purchase service become a responsibility of the Distributor (loss of control) (+) Storage capacity is a plus	Physical Distance (-) Having storage capacity is imperative, since it is impossible to process and to deliver each order individually (the client is the final customer and not the furniture retailer)
	Economic	High Gini Coefficient: Temahome should concentrate its export efforts where this small but rich part of the population is concentrated (Istanbul and Ankara) Large Currency risk: Temahome should work together with a financial insurance company (hedging)			
	Furniture Specific	Retailer Fragmentation (-) Lack of storage capacity is a disadvantage Inexistent demand for Temahome (-) Without a local intermediate it will be harder for Temahome to gather new orders and clients	Retailer Fragmentation (-) Lack of storage capacity is a disadvantage (+) Having a local intermediate facilitates gathering new orders (+) Agents have a supply driven approach which facilitates capturing new clients	Retailer Fragmentation (+) Storage capacity is a plus Inexistent demand for Temahome (+) Having a local intermediate facilitates gathering new orders (-) Distributors have a demand driven approach which makes it harder to capture new clients	N.A. - Inexistent demand for Temahome (-) Increases the reluctance of the Turkish end customers to buy Temahome's products online

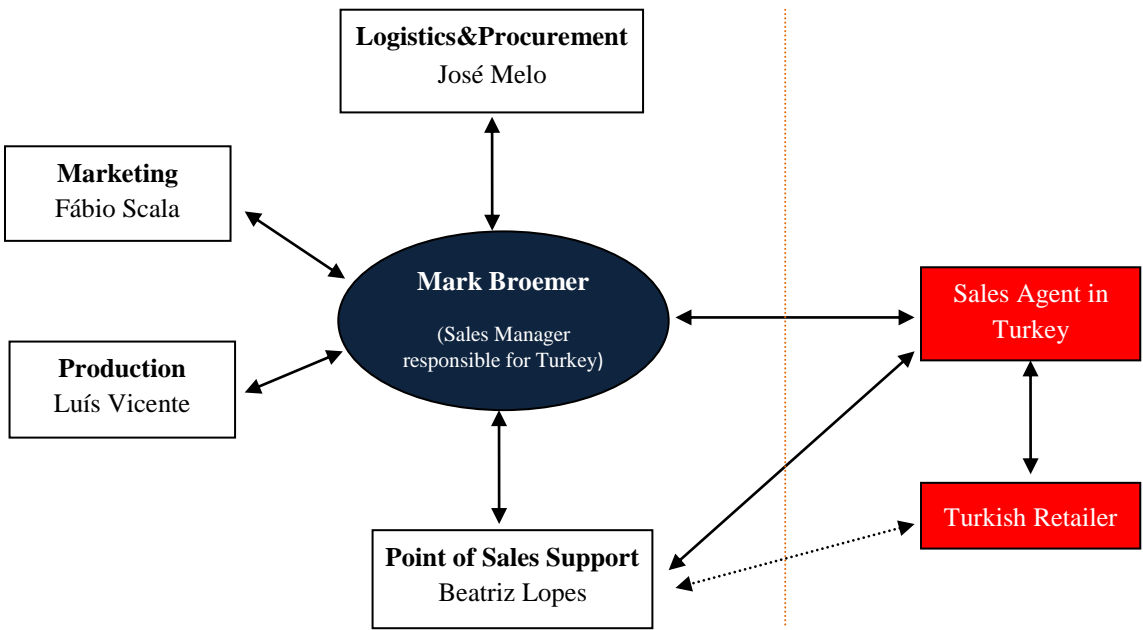
Using the three variables that we have indicated to the choice of the mode of entry and implementation strategy (Internal Resources & Capabilities, International Best Practices and Adaptation), we classified each of the available options.

Taking into account the specificities of the Turkish market in comparison to the AI, we assigned a plus (+) whenever the mode of entry was better suited for a given characteristic of the local market. On the other side, we have attributed a minus (-) whenever the mode of entry does not fit with a certain feature of the Turkish market.

The main conclusion is that Sales Agents and Distributors constitute the two best approaches to enter in the Turkish market. Selecting one of them, requires an evaluation of the relative importance of the advantages and disadvantages associated with each of these two alternatives.

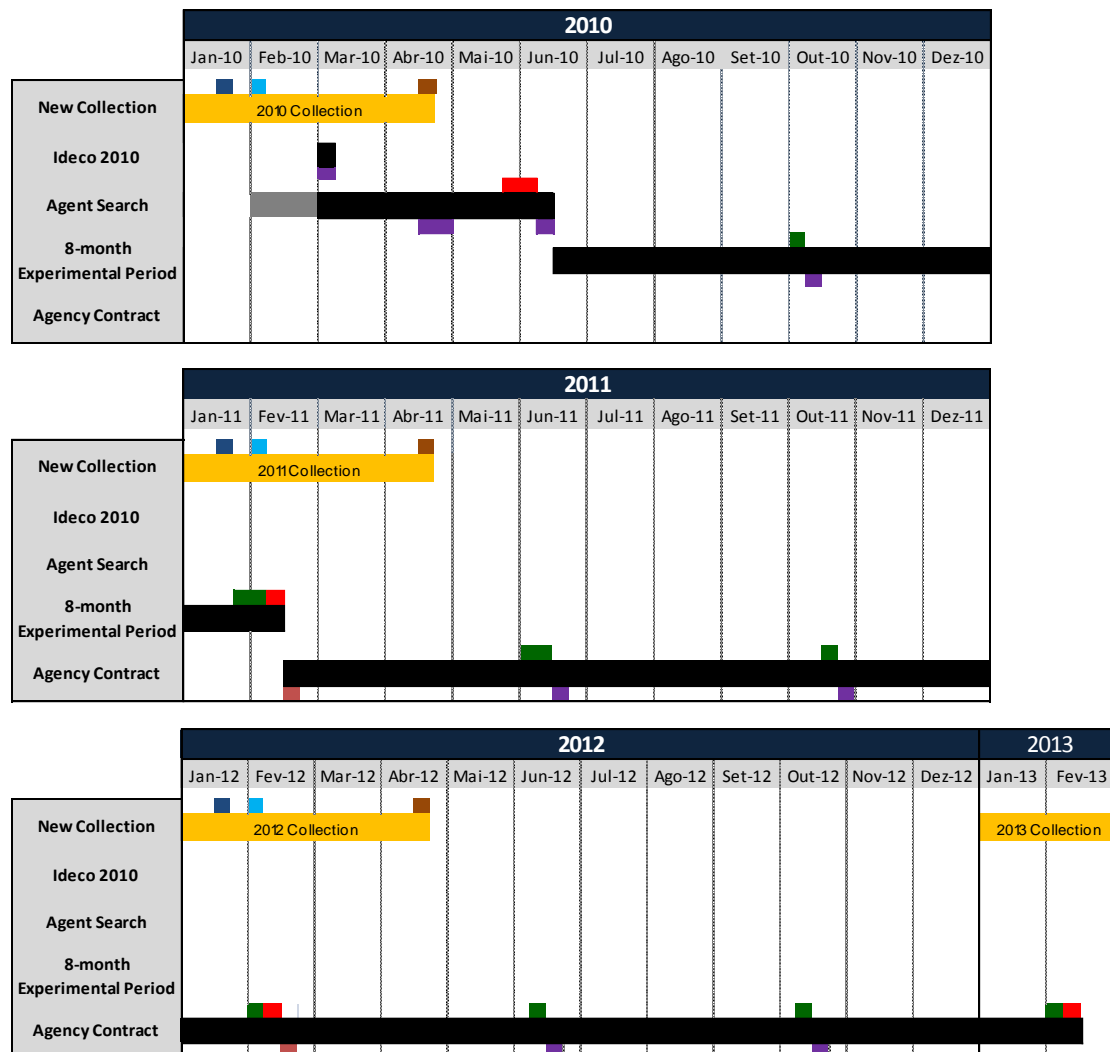
Appendix 19

General communication flows regarding Temahome's implementation in Turkey



Appendix 20

Detailed timeline for the 3-year implementation plan



Each year, from January to April, Temahome presents its products in three of the most important international furniture fairs. Additionally, in 2010 we suggest the participation in I-deco Istanbul 2010. Apart from the fair, we believe that 2010 will require 3 journeys to Turkey. One to develop contacts with potential agents (April 2010), other to negotiate the experimental period contract and to provide some formation to the Agent (June 2010) and finally an intermediated meeting to give some feedback to the sales agent and to discuss potential improvements that can be taken by each side.

By the end of the experimental period, Temahome evaluates the agent's performance and decide whether or not to advance into an Agency Contract. In case of a dissatisfactory performance, Temahome has three options:

I. Return to the furniture fair stage (I-deco Istanbul 2011): If Temahome still believes that the company suits the Turkish market, but still lacks the right contacts;

II. Return to the agent search stage (2-week exploratory journey to Turkey): If Temahome still believes that the company suits the Turkish market, and if the company already has some local contacts with whom Temahome can advance directly to negotiations.

III. Exit / Postpone Entry option: If Temahome realizes that the Turkish furniture market does not suit Temahome's product characteristics, resources and capabilities.

On the other hand, if Temahome is generally satisfied with the 8 month experience, the sales agent should be invited to visit Portugal, where the Agency Contract would be signed (expected date: February 2011). Additionally, the sales agent would be subject to an intensive training about Temahome's products, that would comprise a visit to the Tomar factory as well as some specific training in product assembling. At the same time, Temahome designers would have the opportunity to introduce personally the 2011 Collection to the sales agent.

This visit of the sales agent to Portugal should be then repeated every February in order to guarantee specific training about the new collection that has been developed for the starting year.

During the life of the Agency contract, Temahome should maintain intermediate short-meetings each June and October (assuming a agency contract signed in February) in Istanbul in order to give and receive feedback from the agent as well as visiting (together with the sales agent) the most important clients as well as potential ones.

Appendix 21

Initial investment estimative

- *Agent Searching Costs*

It comprises a 2 week exploratory journey to Turkey in the end of April

Journey length: 14 days

Flights (with return): 278,01€¹⁴

Accommodation: 60€ / night¹⁵

Daily Expenditures: 50€

Representation Expenditures: 100€¹⁶

	Per person	2-People
Flights	278,01 €	556,02
Accommodation	780,00 €	1.560,00 €
Daily Expenditures	700,00 €	1.400,00 €
Representation Exp.	1.400,00 €	1.400,00 €
Total Agent Search Cost	-	4.916,02 €

- *I-deco Istanbul 2010 (furniture fair)*

Cost per square meter / day: 80€¹⁷

Nº of days: 5

Stand Area: 40m²

50 meters Stand	16.000,00 €	20%
Stand Construction	32.000,00 €	40%
Extras	32.000,00 €	40%
Trade Fair Budget	80.000,00 €	100%

In order to calculate the total costs of the furniture fair we used the 60% rule of thumb (advice of the imm Collogne Fair), in which stand renting represents on average 20% of the total costs, while the stand construction 40%.

Total Initial Investment Estimative : 84.916,02€

¹⁴ Flight booked with one month in advance. Observation done on the 10th of December 2009 in relation to a flight on the 11th of January with return on the 16th of January 2010. Airline company: Lufthansa

¹⁵ Price for a 3 stars Hotel in the center of Istanbul, with breakfast included

¹⁶ To the calculations of the cost associated with other journeys we considered daily representation costs to be 50€. However, in this case due to the necessity of establishing more contacts with potential partners, we expect these costs to double in this journey.

¹⁷ In order to participate in this type of events, companies have rent a certain area, for which they pay a fixed daily fee. In this case, during our interview with the Dr. Kadri Çoklar we were informed that the daily rent per square meter was 80€

Appendix 22

Meetings and formation expenditures

- *Turkey Meetings*

Meeting 1

Objective: Negotiate and sign experimental period contract

Timeline: June 2010

Journey length: 5 days

	Per person	3-People
Flights	278,01 €	834,03 €
Accommodation	240,00 €	720,00 €
Daily Expenditures	250,00 €	750,00 €
Representation Exp.	250,00 €	250,00 €
Turkey Meeting 1		2.554,03 €

Meeting 2

Objective: Experimental Period Intermediate Meeting

Timeline: October 2010

Journey length: 4 days

	Per person	2-People
Flights	278,01 €	556,02 €
Accommodation	180,00 €	360,00 €
Daily Expenditures	200,00 €	400,00 €
Representation Exp.	200,00 €	200,00 €
Turkey Meeting 2		1.516,02 €

All the subsequent 4 meetings (each June and October) are expected to cost as much as the meeting 2.

Total Turkey's Meetings Cost Estimative : 10134,13€

- *Annual Lisbon Formation*

2011 Formation + Agency Contract

Objectives: Agency Contract Agreement & Intensive Formation

Timeline: February 2011

Journey length: 6 days

	Per person	3-People
Flights	278,01 €	834,03 €
Accommodation	245,00 €	735,00 €
Daily Expenditures	100,00 €	300,00 €
Contract Legal Exp.	-	300,00 €
1-day at Tomar	-	255,00 €
2011 Collection Formation	-	300,00 €
2011 Lisbon-Training Cost		2.724,03 €

2012 Formation

Objectives: Intensive Formation

Timeline: February 2011

Journey length: 6 days

	Per person	3-People
Flights	278,01 €	834,03 €
Accommodation	147,00 €	441,00 €
Daily Expenditures	60,00 €	180,00 €
1-day at Tomar	-	255,00 €
2012 Collection Formation	-	300,00 €
2012 Lisbon-Training Cost		2.010,03 €

Total Lisbon Formation Cost Estimative : 4.734,06€

Appendix 23

Sales Revenues Estimative

	Unit Price	Units Sold / Month		
		2010	2011	2012
Handle	183,00 €	4	5	6
Tapete Furoshiki	1.238,00 €	2	3	3
Cadeira Tavares	500,00 €	3	4	5
Aparador Scatola Armonica	1.315,00 €	2	3	3
Mesa Gem	1.040,00 €	2	3	3
Lisbon Collection 2010		9.418,00 €	12.243,40 €	14.692,08 €
Line Trends		4.036,29 €	5.247,17 €	6.296,61 €
	Monthly Sales	13.454,29 €	17.490,57 €	20.988,69 €
	Annual Sales	80.725,71 €	209.886,86 €	251.864,23 €

The Lisbon Collection revenues result from the sales expected to each of its 5 products (Handle, Tapete Furoshiki, Cadeira Tavares Scatola Armonica and Mesa Gem). Despite the fact that the main focus of Temahome in Turkey will be the Lisbon Collection, we assumed that 30% of its sales would be generated through the line trends.

Adding up, the sales for each line, we reach a monthly sales value, which was multiplied by 6 months for 2010, and by 12 in the case of 2011 and 2012.

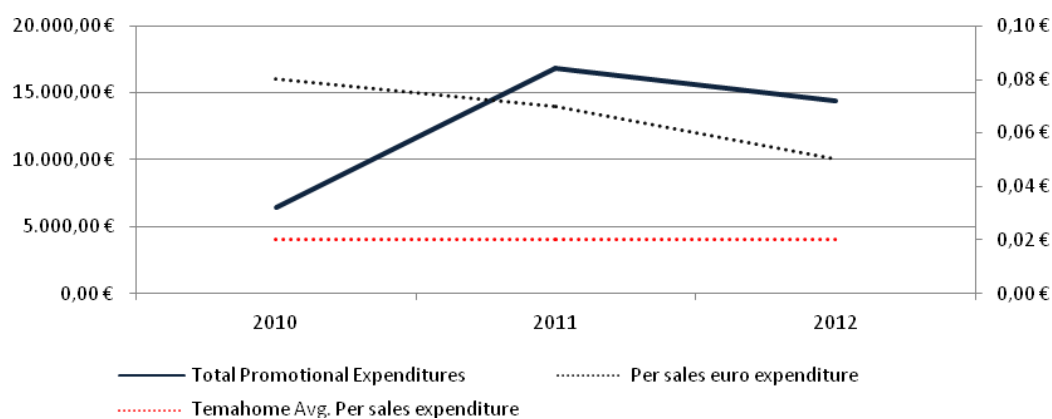
Sales Growth Assumption: 40% from 2010 to 2011
 20% from 2011 to 2012

Appendix 24

Operational Costs Estimative

Point of Sale Promotional Costs

In 2009, these costs represented 200.000€ for Temahome worldwide business, which equals a cost of 0,02€ per each 1€ of sales. Due to the fact that Temahome is entering in a new market where it has no brand awareness among furniture retailers and final customers, we believe that Temahome should apply to this parameter a larger weight of its sales in Turkey. In that sense, in 2010 for each 1€ generated in sales, 0,08€ should be used in catalogs and other promotional materials. In 2011 the per unit amount should decrease to 0,07€ and in 2012 drop to 0,05€. Notice that this does not mean that Temahome will divest in absolute terms in promotional expenditures, since the drop in the percentage should be accompanied by an increase in the sales volume in Turkey.



Agent Commissions

Temahome will also have to pay the commission due to the sales agent whenever a sale to Turkey is processed. Although the exact value of the commission is subject to negotiation, Temahome policy is to maintain them within a range from 6% to 8%. In order to increase the sales agent willingness and sales effort regarding Temahome's products, we believe that Temahome should incorporate something that the company has not been doing so far: progressive commissions. This approach would allow Temahome to reward and punish the sales representatives in accordance to their performance. Consequently, our proposal was to apply a 7% commission whenever the agent is within the range 10% below the monthly objective and 10% above it. If the sales revenues generated were below this threshold a 6% commission should be applied.

Contrarily, in case of sales above the upper barrier, then the sales agent would receive 8% of the sales volume in commissions. Notice that this practice not only incentives the agent to achieve a attain the objectives, but also allows Temahome to establish a cushion for bad years, since a lower amount of sales will be translated into disproportionally lower commissions paid.

Design Royalties: 5% of the sales generated with the line Lisbon Collection (whose products are conceived with the collaboration of external designers and therefore are paid through royalties)

Cost of Materials Sold

Taking into account the feedback that we received during our interviews at Temahome, and in order to calculate the cost of materials sold, we assumed the following values.

- Cost of Materials Sold (Line Trends) : 35% of the sales revenues
- Cost of Materials Sold (Lisbon Collection) : 15% of the sales revenues

Transportation Costs

The freight cost of a 40-feet container departing from Lisbon to Istanbul is approximately 1.250€. However, according to the feedback that we received during our interview with Dr. João Mota Pinto the cost of filling only a part of the container is not directly proportional. In that sense, we assumed the following table in our calculations for the transportation cost.

% of the Container	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Freight Cost	340,00 €	505,00 €	650,00 €	775,00 €	885,00 €	980,00 €	1.060,00 €	1.130,00 €	1.192,50 €	1.250,00 €

To our calculations we assumed that a 100% fully loaded container would be able to transport a total worth of 40.000€.

Then, we fixed the amount per order in 5.000€ (for 2010) and 6.000€ (for 2011), which corresponds to 12,5% and 15% of the 40-feet container, respectively. Taking into account our sales estimative per month, these fixing these limits will correspond to a maximum of 11 days between each order sent.

Finally, multiplying the number of orders per year with the average cost per order, we obtained our estimation for the annual transportation costs.

Appendix 25 - Value Chain Draft

